KongSun 江山

Kong Sun Holdings Limited

Stock Code: 295

Annual Report 2007

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Tse On Kin *(Chairman)* Kong Li Szu Chan Chi Yuen
INDEPENDENT NON-EXECUTIVE DIRECTORS	Chan Chiu Hung, Alex Lo Miu Sheung, Betty Wong Yun Kuen
QUALIFIED ACCOUNTANT AND COMPANY SECRETARY	Mak Wai Ho, Brandon
REGISTERED OFFICE	Unit A, 1st Floor, Lippo Leighton Tower 103 Leighton Road, Causeway Bay Hong Kong
AUDITORS	SHINEWING (HK) CPA Limited 16th Floor, United Center 95 Queensway Hong Kong
SOLICITORS	Michael Li & Co. Henry Fok & Co.
PRINCIPAL BANKERS	Standard Chartered Bank (Hong Kong) Limited The Bank of China (HK) Limited
SHARE REGISTRARS AND TRANSFER OFFICE	Computershare Hong Kong Investor Investor Services Limited 46th Floor, Hopewell Center 183 Queen's Road East Hong Kong
STOCK CODE	295
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CHAIRMAN'S STATEMENT

On behalf of the Board of Directors, I am pleased to present the annual results of Kong Sun Holdings Limited (the "Company") and its subsidiaries (the "Group") for the financial year ended December 31, 2007.

The Company and the Group had gone through another hard year. Intense cost reduction programs have been carried on and addition source of finance has been kept seeking during the year. Loss for the year had been broadened this year as the lack of constant income to the Group had made the financial position of the Group precarious. In order to secure a steady income to the Group, the Group will diversify and embark on the manufacturing industry as well as adding investment in properties development market in Hong Kong and Middle Asia.

The Group's results for the year under review generally reflected the financial difficulties of the Group which has been facing. Loss for the year amounted to approximately HK$17,916,000 as compared to HK$12,664,000 recorded in last year. Loss per share was HK0.7 cents as compared to HK0.49 cents in the previous year. Further reduction in deficit and possible return to profitability will be our next target for the years to come.

The major investment of the Group now rests in Malaysia. The Group will embark on manufacturing business and Hong Kong real estate market in order to re-establish steady investment income and more importantly, to improve shareholder returns.

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

TSE ON KIN
Chairman

Hong Kong, 29 April 2008

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

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

The Group has experienced serious financial difficulties for the year ended 31 December 2007 and the results under review generally reflected the situation. Loss attributable to shareholders has been broadened to approximately HK$17,916,000 as compared to HK$12,664,000 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 has already identified new target of investment opportunities and will diversify its investment in manufacturing business as well as real estate markets and properties development in Hong Kong and Middle Asia respectively so as to form a better foundation to improve the Group's performance in the future.

FINANCIAL REVIEW

As at 31 December 2007, the total shareholders fund of the Group amounted to approximately HK$55.3 million, compared to approximately HK$74 million as at 31 December 2006. The debt ratio (based on the sum of current liability and long-term liability over the equity) of the Group as at 31 December 2007 was 1.4 while the ratio as at 31 December 2006 was 0.88.

The Group's income and expenditure were mainly dominated in HKD, RMB, SGD and MYR. The Group's business operation and investment of the Group are translated in Hong Kong, the PRC, Singapore and Malaysia and its revenue and expenditure in HKD, RMB, SGD and MYR.

PROSPECTS

The Group has only retained its property investment in Malaysia. As no operating income of the Group has been generated, 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 manufacturing of plant-life business, (ii) real estate investment business in Hong Kong and (iii) property development business in Cambodian, during the year. The coming injection of the new businesses plus the robust performance of the PRC's economy, together with improving conditions in Hong Kong and Malaysia are expected to set the Group well on track to succeed in its restructuring and future development.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Tse On Kin

Chairman

aged 46, has over 19 years of experience of in corporate planning, operation, human resources and new markets development. Mr. Tse has a Bachelor degree in Public Policy and Administration from York University in Canada. Mr. Tse is currently the chairman of New Times Group Holdings Limited, a non-executive director of China Science Conservational Power Limited and Climax International Company Limited. Mr. Tse was also the former chairman of China Science Conservational Power Limited, an executive director of China National Resources Development Holdings Limited and Mexan Limited and the vice-chairman and chief executive officer of Great Wall Cybertech Limited.

Mr. Kong Li Szu

Executive Director

aged 37, is the son of the late Mr. Kong Look Sen. He was appointed as an Executive Director of the Company since 1998. Mr. Kong holds a bachelor degree and a master degree in Civil Engineering from Washington University and Stanford University respectively. He is well experienced in civil works and China investment and trades. Mr. Kong is responsible for the day-to-day operation, strategic planning and development of the Group.

Mr. Chan Chi Yuen

Executive Director

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

Mr. Chan Chiu Hung

Independent Non-executive Director

aged 42, holds a Bachelor degree in Business Administration, major in Finance. He has been working with several listed and multinational companies for over 12 years. Mr. Chan is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants, The Institute of Chartered Accountants in England and Wales and The Hong Kong Institute of Chartered Secretaries. He is currently an independent non-executive director of A-Max Holdings Limited and Vitop Bioenergy Holdings Limited.

BIOGRAPHICAL DETAILS OF DIRECTORS

Ms. Lo Miu Sheung, Betty

Independent Non-executive Director

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

Dr. Wong Yun Kuen

Independent Non-executive Director

aged 50, received his Ph.D. degree from Harvard University, and was “Distinguished Visiting Scholar” in Finance at the Wharton School of the University of Pennsylvania. He has worked in financial industries in the United States and Hong Kong for more than 10 years, and has considerable experience in Corporate Finance, Investment and Derivative Products. He is a member of Hong Kong Securities Institute, Master Financial Professional and Fellow of American Academy of Financial Management and a Certified Ecommerce Consultant of the Institute of E-Commerce Consultant, U.S.A. In addition, Dr. Wong is also an executive director of UBA Investments Limited, an independent non-executive director of Harmony Asset Limited, Grand Field Group Holdings Limited, Challenger Group Holdings Limited, Poly Investments Holdings Limited, Bauhaus International (Holdings) Limited, Golden Resorts Group Limited, Superb Summit International Timber Company Limited, ProSticks International Holdings Limited and Climax International Company Limited. Dr. Wong was a former independent non-executive director of Apex Capital Limited.

DIRECTORS' REPORT

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

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

SEGMENT INFORMATION

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 8 to the financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 23 to 26.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2007.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 27 and other details of the reserves of the Company and the Group are set out in Note 29 to the financial statements.

DISTRIBUTABLE RESERVES

At 31 December 2007, the Company had no reserves available for distribution. However, the Company's share premium account, in the amount of approximately HK$329,049,000, may be distributed in the form of fully paid bonus shares.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and reclassified as appropriate, is set out on page 100. This summary does not form part of the audited financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in Note 29 to the financial statements.

SHARE OPTIONS

Details of movements in the share options of the Company during the year is set out in Note 30 to the financial statements.

DIRECTORS' REPORT

DIRECTORS

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

Executive directors

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

Independent non-executive directors

Chan Chiu Hung	
Lo Tat Shing	– resigned on 9 May 2007
Lo Miu Sheung, Betty	– appointed on 15 February 2007
Wong Yun Kuen	– appointed on 20 April 2007

In accordance with articles 1(G), 81 to 84 of the Company's articles of association, Mr. Kong Li Szu and Mr. Chan Chiu Hung will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the directors and the senior management of the Company are set out on page 5 to 6.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' INTEREST IN CONTRACTS

Save as disclosed in Note 34 to the financial statements, no other contracts of significance in relation to the Group's business to which the Company, its holding company, or any of its subsidiaries of fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 31 December 2007, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO"), as recorded in the register required to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Merchant Code"), were as follows:

Long Position in the shares of the Company

		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, at 31 December 2007, none of the directors or chief executives of the Company or their associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

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

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

SUBSTANTIAL SHAREHOLDERS

At 31 December 2007, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

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

Save as disclosed above, at 31 December 2007, the Company was not aware of any other person (other than the directors or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CONNECTED TRANSACTIONS

Saved as disclose in Note 34 to the financial statements, there are no other transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' REPORT

CONVERTIBLE SECURITIES, OPTIONS, WARRANTS OR SIMILAR RIGHTS

The Company had no outstanding convertible securities, options, warrants or other similar rights at 31 December 2007. There has been no exercise of convertible securities, options, warrants or similar rights during the year.

PURCHASE, REDEMPTION OR SALE OF COMPANY'S LISTED SECURITIES

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

LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2007, the Group had total assets of HK$132,824,000 which were financed by current assets of HK$28,085,000, other payables of HK$11,761,000 bank loans and other borrowings of HK$37,639,000, minority interests of HK$12,000 and shareholders' equity of HK$55,327,000.

RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes of the Group are set out in Note 31 to the financial statements.

EMPLOYEES AND EMPLOYMENT POLICIES

At 31 December 2007, the Group employed 4 staffs. The Group employs and remunerates its staff based on their performance and experience. In addition to basic salary payments, staff members are covered by the Group's health and medical scheme, discretionary bonus and mandatory provident fund schemes.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the significant post balance sheet events of the Group are set out in Note 36 to the financial statements.

PRE-EMPTIVE RIGHTS

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

DIRECTORS' REPORT

AUDIT COMMITTEE

The Audit Committee has three independent non-executive directors of the Company. The audit committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial report matters including a review of the audited financial statements for the year ended 31 December 2007 with the management.

AUDITORS

CCIF CPA Limited had been appointed as auditors of the Group for the year ended 31 December 2005 and 31 December 2006. CCIF CPA Limited had resigned as auditors of the Group on 14 April 2008 and SHINEWING (HK) CPA Limited has been appointed as auditors of the Group by the board to fill the casual vacancy. A resolution for the reappointment of SHINEWING (HK) CPA Limited as auditors of the Group will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Tse On Kin
Chairman
Hong Kong, 29 April 2008

CORPORATE GOVERNANCE REPORT

The Board of the Directors (the “Board”) is pleased to present this Corporate Governance Report of the Group for the year ended 31 December 2007.

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

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

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

CORPORATE GOVERNANCE

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

THE BOARD OF DIRECTORS

Responsibilities

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

CORPORATE GOVERNANCE REPORT

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

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

Composition

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

The Board of the Company comprises the following directors:

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

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

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

Mr. Ku Suen Fai, Mr. Sin Wai Chiu, Joseph and Mr. Ip Man Tin, David had tendered their resignations as independent non-executive directors and members of audit committed of the Company on 23 March 2006, 28 March 2006 and 17 October 2006 respectively. In order to address to the non-compliance of Rule 3.10 of the Listing Rules, Mr. Chan Chiu Hung, Alex and Mr. Lo Tat Shing have been appointed as independent non-executive directors as well as members of the audit committee of the Company on 9 June 2006. Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen were also appointed as independent non-executive directors as well as members of the audit committee of the Company on 15 February 2007 and 20 April 2007 respectively. On 9 May 2007, Mr. Lo Tat Shing had tendered his resignation as independent non-executive directors and members of audit committed of the Company. The audit committee now comprises three independent non-executive directors of the Company, namely, Mr. Chan Chiu Hung, Alex, Ms. Lo Miu Sheung, Betty and Dr. Wong Yun Kuen. The Company has received written annual confirmation from each independent non-executive director of their independence pursuant to the requirements of Rules 3.13 of the Listing Rules. The Company considers all independent non-executive directors to be independence in accordance with the independence guidelines set out in the Listing Rules.

CORPORATE GOVERNANCE REPORT

Induction for Directors

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

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

Board and Board Committee Meetings

Number of Meetings and Directors' Attendance

Regular Board meetings are held at least four times a year at approximately quarterly intervals for reviewing and approving the financial and operating performance, and considering and approving the overall strategies and policies of the Company. The Board met 15 times during the year ended 31 December 2007.

Practices and Conduct of Meetings

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

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

CORPORATE GOVERNANCE REPORT

Minutes of all Board meetings sufficient details of matters considered and decisions reached are kept by the secretary of the meetings are open for inspection by the directors. The attendance of individual members of the Board and other Board Committees meetings during the year ended 31 December 2007 is set out in the table below:

	Meetings attended/held		
	Board of Directors	**Audit Committee**	**AGM/EGM**
Executive directors			
Tse On Kin	15/15	N/A	1/1
Chan Chi Yuen	15/15	N/A	1/1
Mr. Kong Li Szu	10/15	N/A	1/1
Mr. Kong Li Jer (resigned on 15 February 2007)	0/15	N/A	0/1
Mr. Kong Lok King (resigned on 15 February 2007)	0/15	N/A	0/1
Independent non-executive directors			
Mr. Chan Chiu Hung	4/15	2/2	1/1
Mr. Lo Tat Shing – resigned on 9 May 2007	0/15	0/2	0/1
Ms. Lo Miu Sheung, Betty – appointed on 15 February 2007	2/15	1/2	0/1
Dr. Wong Yun Kuen – appointed on 20 April 2007	4/15	2/2	1/1

Board Committees

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

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

Remuneration Committee

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

CORPORATE GOVERNANCE REPORT

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

Audit Committee

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

The main duties of the Audit Committee include the followings:

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

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

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

The Audit Committee held two meetings during the year ended 31 December 2007 to review the financial results and report of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the year ended 31 December 2007.

CORPORATE GOVERNANCE REPORT

CONTINUING DISCLOSURE REQUIREMENTS UNDER CHAPTER 13 OF THE LISTING RULES

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

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

Pursuant to a debt acquisition agreement dated 14 February 2007 between Mr. Ng Leung Ho ("Mr. Ng") and ICIC, the 596,052,085 ordinary shares of HK$0.10 each, originally pledged to ICIC to secure a term loan facility of HK$12 million, has been transferred by ICIC and pledged to Mr. Ng for a loan granted to the Company to repay the term loan facility granted by ICIC. At 31 December 2007, Kong Fa has pledged 596,052,085 ordinary shares of HK$0.10 each of the company to secure the loan of approximately HK$6,939,000.

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

(i) At 31 December 2007, the Group had a loan receivable of approximately HK$39,510,000 and the accrued loan interest receivable of approximately HK$5,358,000 due from a shareholder of the Group's associate, United Victoria (the "Borrower"). Pursuant to the loan agreement, interest of the loan is chargeable at 4% over prime rate per annum. The loan is secured by a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The repayment date of the loan together with interest thereon was extended to June 2005. However, the loan and the accrued interest receivables remain outstanding and overdue. A provision of approximately HK$5,358,000 had been made against the accrued interest receivable in previous year. The loan receivable balance of HK$39,510,000 represented 71% of the Group's net assets at 31 December 2007. The Group is in the process of enforcing the repayment of the loan and interest receivables by realising the 20% equity interest in United Victoria secured thereto for settlement of the outstanding receivables.

(ii) At 31 December 2007, the Group had an amount of approximately HK$78,679,000 due from Beijing Tianheng, representing the net consideration receivable on disposal of 90.1% interest of the registered capital of Kong Sheng. This consideration receivable is unsecured and interest fee and had been fully impaired during the year ended 31 December 2006.

CORPORATE GOVERNANCE REPORT

RESPONSIBILITIES IN RESPECT OF THE FINANCIAL STATEMENTS

The directors acknowledge their responsibility for preparing the financial statements of the Group and have adopted the accounting principles generally accepted in Hong Kong and compiled with the requirements of Hong Kong Financial Reporting Standards which also include Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. As at 31 December 2007 directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going-concern basis. The reporting responsibilities of the Company's independent auditors are set out in the Report of Auditors on page 20 to 22.

AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2007 amounted to HK$450,000. There was no non-audit service rendered to the Company by its external auditors during the year under review.

INVESTOR RELATIONS AND COMMUNICATIONS

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

INTERNAL CONTROL

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

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

INDEPENDENT AUDITOR'S REPORT

信永中和 ShineWing

SHINEWING (HK) CPA Limited
16/F., United Centre
95 Queensway, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF KONG SUN HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

We have audited the financial statements of Kong Sun Holdings Limited (the "Company") and its subsidiaries (collectively referred as the "Group") set out on pages 23 to 99, which comprise the consolidated and Company's balance sheets as at 31 December 2007, the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Except as described in the basis for qualified opinion paragraph, we conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITY *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessment, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

BASIS FOR QUALIFIED OPINION

Scope limitation – Prior year's audit scope limitation affecting opening balances

The financial statements of the Group for the year ended 31 December 2006 were audited by another firm of auditors whose report dated 10 September 2007 was disclaimed in respect of scope limitation of the consideration receivables with carrying amount of nil stated net of an impairment of approximately HK$83,517,000 which was made in prior years.

We were not able to obtain sufficient reliable evidence to enable us to assess the accuracy of the impairment loss made on the respective consideration receivables for the year ended 31 December 2006 and whether the consideration receivables were fairly stated as at 31 December 2006. Any adjustments found to be necessary in respect of the above as at 31 December 2006 would have had a consequential impact on the opening balances of net assets of the Group as at 1 January 2007, its loss for the year ended 31 December 2007, and the related disclosures in the financial statements.

Qualified opinion arising from limitation of audit scope

In our opinion, except for the effects of any adjustments to the loss of the Group for the year ended 31 December 2007, if any, that might have been determined to be necessary had we been able to satisfy ourselves as to the matters described in the basis for qualified opinion paragraph, the financial statements give a true and fair view of the state of the Group and the Company's affairs as at 31 December 2007 and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

INDEPENDENT AUDITOR'S REPORT

Report on matters under section 141(4) and 141(6) of the Hong Kong Companies Ordinance

In respect alone of the limitation on our work relating to matter described in the scope limitation paragraph above, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

Emphasis of matters

Without qualifying our opinion, we draw attention to note 2 to the financial statements which indicates that the Group recorded a thin bank position of approximately HK$953,000 as at 31 December 2007 and suffered continuing losses of approximately HK$17,916,000 for the year ended 31 December 2007. In forming our opinion, we have considered the adequacy of disclosures made in the financial statements concerning the adoption of the going concern basis for the preparation of the financial statements. The directors of the Company are satisfied that the Group will be able to meet in full its financial obligations as they fall due for the foreseeable future. The financial statements have been prepared on a going concern basis, the validity of which depends upon future funding being available. The financial statements do not include any adjustments that would result from a failure of the Group to obtain such future funding. We consider that the fundamental uncertainty has been adequately disclosed in the financial statements and our opinion is not qualified in this respect.

SHINEWING (HK) CPA Limited
Certified Public Accountants
Ip Yu Chak
Practising Certificate Number: P04798

Hong Kong
29 April 2008

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Turnover		**–**	–
Other revenue	9	**1,744**	40
Employee benefit expenses		**(1,004)**	(598)
Other operating expenses		**(6,159)**	(3,917)
Finance costs	10	**(5,705)**	(4,549)
Share of results of associates	19	**(303)**	(3,640)
Impairment loss recognised in respect of available-for-sale investment	20	**(6,537)**	–
Loss before tax		**(17,964)**	(12,664)
Income tax credit	11	**48**	–
Loss for the year	12	**(17,916)**	(12,664)
Attributable to:			
Equity holders of the Company		**(17,915)**	(12,663)
Minority interests		**(1)**	(1)
		(17,916)	(12,664)
Dividend	15	**–**	–
Loss per share			
Basic	16	**HK(0.70) cents**	HK(0.49) cents
Diluted		**N/A**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current asset			
Interests in associates	19	**91,605**	91,509
Available-for-sale investment	20	**–**	6,537
		91,605	98,046
Current assets			
Trade and other receivables	23	**714**	396
Loan and interest receivables	21	**39,510**	39,510
Consideration receivables	22	**–**	–
Pledged deposits	24	**42**	40
Bank balances and cash	25	**953**	34
		41,219	39,980
Current liabilities			
Trade and other payables	26	**23,515**	29,451
Bank and other borrowings-due within one year	27	**4,570**	33,169
Obligations under finance leases	28	**–**	12
Tax liabilities		**–**	48
		28,085	62,680
Net current asset (liabilities)		**13,134**	(22,700)
Total assets less current liabilities		**104,739**	75,346
Non-current liabilities			
Other payables – due after one year	26	**11,761**	–
Bank and other borrowings-due after one year	27	**37,639**	1,800
		49,400	1,800
NET ASSETS		**55,339**	73,546

CONSOLIDATED BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
CAPITAL AND RESERVES			
Share capital	29	**256,116**	256,116
Reserves	29	**(200,789)**	(182,583)
Total equity attributable to equity holders of the Company		**55,327**	73,533
Minority interests		**12**	13
TOTAL EQUITY		**55,339**	73,546

The financial statements on pages 23 to 29 were approved and authorised for issue by the Board of Directors on 29 April 2008 and are signed on its behalf by:

Director *Director*

BALANCE SHEET

As at 31 December 2007

	Notes	2007 HK$'000	2006 HK$'000
Non-current asset			
Investments in subsidiaries	17	–	–
Amounts due from subsidiaries	18	95,687	95,690
		95,687	95,690
Current assets			
Trade and other receivables	23	338	47
Bank balance and cash	25	3	3
		341	50
Current liabilities			
Trade and other payables	26	8,986	19,716
Amounts due to subsidiaries	18	28,106	17,135
Bank and other borrowings – due within one year	27	2,770	29,390
		39,862	66,241
Net current liabilities		(39,521)	(66,191)
Total asset less current liabilities		56,166	29,499
Non current liabilities			
Other payables – due after one year	26	10,681	–
Bank and other borrowings – due after one year	27	21,639	–
		32,500	–
NET ASSETS		23,666	29,499
CAPITAL AND RESERVES			
Share capital	29	256,116	256,116
Reserves	29	(232,450)	(226,617)
TOTAL EQUITY		23,666	29,499

Director *Director*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2007

	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**
		(Note 29 (a)(i))	*(Note 29 (a)(i))*	*(Note 29 (a)(ii))*	*(Note 29 (a)(iii))*	*(Note 29 (a)(iv))*				
	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	9,329	732	(533,006)	80,240	14	80,254
Loss for the year	–	–	–	–	–	–	(12,663)	(12,663)	(1)	(12,664)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	5,956	–	5,956	–	5,956
At 31 December 2006 and 1 January 2007	256,116	329,049	20	18,000	9,329	6,688	(545,669)	73,533	13	73,546
Loss for the year	–	–	–	–	–	–	(17,915)	(17,915)	(1)	(17,916)
Exchange differences arising on translation of foreign operations	–	–	–	–	–	(291)	–	(291)	–	(291)
At 31 December 2007	256,116	329,049	20	18,000	9,329	6,397	(563,584)	55,327	12	55,339

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2007

	2007	2006
	HK$'000	*HK$'000*
OPERATING ACTIVITIES		
Loss before tax	**(17,964)**	(12,664)
Adjustments for:		
Finance costs	**5,705**	4,549
Share of results of associates	**303**	3,640
Bank interest income	**–**	(1)
Payables waived by the creditors	**(1,730)**	–
Impairment loss recognised in respect of available-for-sale investment	**6,537**	–
(Write-back) recognition of impairment loss recognised in respect of other receivable	**(14)**	179
OPERATING CASH FLOWS BEFORE MOVEMENTS IN WORKING CAPITAL	**(7,163)**	(4,297)
Increase in trade and other receivables	**(304)**	(144)
Decrease in consideration receivables	**–**	2,771
(Decrease) increase in trade and other payables	**(223)**	899
NET CASH USED IN OPERATING ACTIVITIES	**(7,690)**	(771)
INVESTING ACTIVITIES		
Repayment from associates	**–**	11
Bank interest received	**–**	1
NET CASH FROM INVESTING ACTIVITIES	**–**	12
FINANCING ACTIVITIES		
New bank and other borrowings raised	**16,000**	3,935
Repayment of bank and other borrowings	**(6,489)**	(1,170)
Repayment of obligation under finance lease	**(12)**	(7)
Interest paid	**(762)**	(2,051)
NET CASH FROM FINANCING ACTIVITIES	**8,737**	707
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,047**	(52)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**34**	82
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	**(128)**	4
CASH AND CASH EQUIVALENTS AT 31 DECEMBER, represented by bank balances and cash	**953**	34

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

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 on the Stock Exchange was suspended with effective from 17 June 2004, at the request of the Company. The addresses of the registered office and principle place of business of the Company are disclosed in the section headed "Corporate Information" section to the annual report.

The financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

The principle activities of the Company is investment holding and the principle activities of its subsidiaries (together with the Company referred to as the "Group") are set out in note 18.

2. BASIS OF PREPARATION OF THE FINANCIAL STATEMENTS

In preparing the financial statements, the directors of the Company have given careful consideration to the future liquidity of the Group in the light of its thin bank position of approximately HK$953,000 as at 31 December 2007 and suffered continuing incurred losses of approximately HK$17,916,000 for the year ended 31 December 2007. The directors are satisfied that, the liquidity of the Group can be maintained in the coming year taking into consideration the arrangements which include, but not limited to, the followings:

(a) the holding company and other investors of the Group have agreed to provide adequate financial support to the Group to enable it to meet in full all its financial obligations as they fall due in the foreseeable future;

(b) Kingston Finance Limited, the existing creditor of the Group, has undertaken not to demand the repayment of secured other borrowings of approximately HK$14,700,000 together with the interest payable of approximately HK$10,379,000 totalling approximately HK$25,079,000 as at 31 December 2007 until 29 April 2009;

(c) Mr. Ng Leung Ho, the existing creditor of the Group, has undertaken not to demand the repayment of unsecured other borrowings of approximately HK$22,939,000 together with the interest payable of approximately HK$1,382,000 totalling approximately HK$24,321,000 as at 31 December 2007 until 29 April 2009; and

(d) the Company has entered into a placing agreement with a placing agent (the "Placing Agent") for the issuance of convertible note of approximately HK$125,000,000. The issuance of such convertible note is subject to the successful of the Company's trading resumption and it is fully underwritten by the Placing Agent.

On the basis that ongoing support from the holding company, other investors and other creditors will continue to be in place, the directors consider that the Group will have sufficient working capital to finance its operations in the foreseeable future. Accordingly, the directors are satisfied that it is appropriate to prepare these financial statements on a going concern basis.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, the following new standard, amendment and interpretations ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for the Group's financial year beginning on 1st January 2007.

Hong Kong Accounting Standard ("HKAS") 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC)-Interpretation ("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 the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new and revised standards, amendment or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC)- Int 11	HKFRS 2 – Group and Treasury Share Transactions[3]
HK(IFRIC)- Int 12	Service Concession Arrangements[4]
HK(IFRIC)- Int 13	Customer Loyalty Programmes[5]
HK(IFRIC)- Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[4]

[1] Effective for annual periods beginning on or after 1 January 2009.
[2] Effective for annual periods beginning on or after 1 July 2009.
[3] Effective for annual periods beginning on or after 1 March 2007.
[4] Effective for annual periods beginning on or after 1 January 2008.
[5] Effective for annual periods beginning on or after 1 July 2008.

The directors of the Company anticipate that the application of these standards, amendment or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below. The financial statements have been prepared in accordance with HKFRSs issued by HKICPA. The financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (i.e. its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed 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.

Where necessary, adjustments are made to the financial statement of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All inter-group transactions, balances, income and expenses are eliminated on consolidation.

Minority interests in the net assets of consolidated subsidiaries are presented separately from the Group's equity therein. Minority interests in the net assets consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see accounting policy of impairment loss as stated below).

Business combinations

The acquisition of businesses is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under HKFRS 3 "*Business Combinations*" are recognised at their fair values at the acquisition date.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Business combinations *(Continued)*

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recoginsed. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit or loss.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Investments in associates

An associate is an entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, interests in associates are carried in the consolidated balance sheet at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any identified impairment loss. When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. An additional share of losses is provided for and a liability is recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment.

For the purposes of impairment testing, goodwill arising from an acquisition is allocated to each of the relevant cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the acquisition. A cash-generating unit to which goodwill has been allocated is tested for impairment annually, and whenever there is an indication that the unit may be impaired. For goodwill arising on an acquisition in a financial year, the cash-generating unit to which goodwill has been allocated is tested for impairment before the end of that financial year. When the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated to reduce the carrying amount of any goodwill allocated to the unit first, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in the consolidated income statement. An impairment loss for goodwill is not reversed in subsequent periods.

On subsequent disposal of the relevant cash-generating unit, the attributable amount of goodwill capitalised is included in the determination of the amount of profit or loss on disposal.

Where a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Revenue

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

Revenue from sale of properties in the ordinary course of business (including revenue from pre-completion contracts for the sale of development properties entered into on or after 1 January 2005) is recognised:

– the significant risks and rewards of ownership of the properties are transferred to buyers;
– neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties are retained;
– the amount of revenue can be measured reliably;
– it is probable that the economic benefits associated with the transaction will flow to the Group; and
– the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Revenue from pre-completion contracts for the sale of development properties entered into before 1 January 2005 was recognised over the period from the execution of a binding sale agreement to the completion of the development on the basis of development costs incurred for work performed to date as a proportion of estimated total development costs.

Interest income from a financial asset is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly to profit or loss.

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight-line basis.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Except for exchange differences arising on a monetary item that forms part of the Group's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the year except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Company (i.e. Hong Kong Dollars) at the rate of exchange prevailing at the balance sheet date, and their income and expenses are translated at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the exchange reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Borrowing costs

All borrowing costs are recognised as and included in finance costs in the consolidated income statement in the year in which they are incurred.

Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme and mandatory central pension schemes organised by the local government in Singapore and Malaysia are charged as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Deferred tax is calculated at the tax rates that are expected to apply in the year when the liability is settled or the asset is realised. Deferred tax is charged or credited to profit or loss, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Impairment losses

At each balance sheet date, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated balance sheet when a group entity becomes a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are mainly including loans and receivables and available-for-sale financial assets. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period.

Income is recognised on an effective interest basis for debt instruments.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At each balance sheet date subsequent to initial recognition, loans and receivables (including trade and other receivables, consideration receivables, loan and interest receivable, amounts due from subsidiaries, pledged deposits and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses. (See accounting policy on impairment loss on financial assets below).

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. The Group designated the unlisted equity investment as available-for-sale financial asset, which is measured at cost less any identified impairment losses at balance sheet date.

At each balance sheet date and subsequent to initial recognition, available-for-sale financial assets are measured at fair value. Changes in fair value are recognised in equity, until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously recognised in equity is removed from equity and recognised in profit or loss. (See accounting policy an impairment loss on financial assets below)

For available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition. (See accounting policy an impairment loss on financial assets below)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been impacted.

For an available-for sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

– significant financial difficulty of the issuer or counterparty; or
– default or delinquency in interest or principal payments; or
– it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade and other receivables, loan and interest receivables and consideration receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, loan and interest receivables, consideration receivables and amounts due from subsidiaries where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When trade and other receivables, loan and interest receivables, consideration receivables and amounts due from subsidiaries are considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Impairment loss on financial assets (Continued)

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on available-for-sale equity investments will not be reversed in profit or loss in subsequent periods. Any increase in fair value subsequent to impairment loss is recognised directly in equity. For available-for-sale debt investments, impairment losses are subsequently reversed if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities. The Group's financial liabilities are generally classified into other financial liabilities.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments thorough the expected life of the financial liability, or, where appropriate, the shorter period.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including (trade and other payables, amount due to subsidiaries, obligations under finance leases and bank and other borrowings) are subsequently measured at amortised cost, using the effective interest rate method.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Equity investments

Equity investments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. A financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contact at the higher of: (i) the amount determined in accordance with HKAS 37 "*Provision, Contingent Liabilities and Contingent Assets*"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "*Revenue*".

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss. If the Group retains substantially all the risks and rewards of ownership of a transferred asset, the Group continues to recognise the financial asset and recognise a collateralised borrowing for proceeds received.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to present value where the effect is material.

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. 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.

Key sources of estimation uncertainty

Estimated impairment of goodwill arising from an associate

Determining whether goodwill is impaired requires an estimation of the future cash flows expected to arise and the expected dividend yield from the associate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2007, no impairment loss on goodwill is considered as necessary. Details are set out in note 19(b).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

Estimated impairment loss of consideration receivables, consideration receivables and loan and interest receivables

The policy for making impairment loss on trade and other receivables, consideration receivables, loan and interest receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each debtor. If the financial conditions of debtors of the Group were to deteriorate, resulting in an impairment of their ability to make payments, additional impairment loss may be required.

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which included the bank and other borrowings as disclosed in note 27, cash and cash equivalents and equity attributable to equity holders of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and risks associates with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, issue of convertible bonds, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

7. FINANCIAL INSTRUMENTS

7a) Categories of financial instruments

	2007	2006
	HK$'000	*HK$'000*
Financial assets		
Loan and receivables		
– trade and other receivables	**374**	347
– loan and interest receivables	**39,510**	39,510
– consideration receivables	**–**	–
– pledged deposits	**42**	40
– bank balances	**950**	31
	40,876	39,928
Available-for-sale investment	**–**	6,537
	40,876	46,465
Financial liabilities		
Other financial liabilities		
– trade and other payables	**13,194**	17,286
– bank and other borrowings,		
– due within one year	**4,570**	33,169
– obligations under finance leases	**–**	12
– other payables		
– due after one year	**11,761**	–
– bank and other borrowings		
– due after one year	**37,639**	1,800
	67,164	52,267

7b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan and interest receivables, consideration receivables, amount due from(to) subsidiaries, pledged deposits, bank balances, trade and other payables, obligations under finance leases and bank and other borrowings. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (currency risk and interest rate risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

7. FINANCIAL INSTRUMENTS *(Continued)*

7b) Financial risk management objectives and policies *(Continued)*

Market Risk

i) Currency risk

Certain bank balances, investment in associates, loans and interest receivables, bank borrowings and payables of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings (see note 27 for details of these borrowings).

Credit risk

As at 31 December 2007, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated balance sheet.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual receivables balances at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank and other borrowings and ensures compliance with respective loan covenants. Also, as mentioned in note 2, the Company has entered into a placing agreement with the Placing Agent for the issuance of convertible notes and reached the agreement with certain creditors of the Company not to demand for the repayment of loans due by the Company until the Company is financially viable to do so. All of the above steps have enabled the Group to mitigate its liquidity risk.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

7. FINANCIAL INSTRUMENTS *(Continued)*

7b) Financial risk management objectives and policies *(Continued)*

Maturity analysis

As at 31 December 2007 and 31 December 2006, the Group's financial liabilities have contractual maturities which are summarized below:

As at 31 December 2007

	Weighted effective interest rate	**On demand/ within one year** *HK$'000*	**One to two years** *HK$'000*	**Total contractual undiscounted cash flow** *HK$'000*
Trade and other payables		13,194	11,761	24,955
Bank and other borrowings	7.75%	4,576	39,302	43,878
		75,770	51,663	68,883

As at 31 December 2006

	Weighted effective interest rate	On demand/ within one year *HK$'000*	One to two years *HK$'000*	Total contractual undiscounted cash flow *HK$'000*
Trade and other payables		17,286	–	17,286
Obligations under finance leases	8%	16	–	16
Bank and other borrowings	10.03%	38,012	1,836	39,848
		55,314	1,836	57,150

7c) Fair value

The fair value of financial assets and financial liabilities are determined as follows:

– the fair value of financial assets and financial liabilities (excluding derivative instruments) with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices, respectively;

– the fair value of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions; and

The carrying amounts of financial assets and financial liabilities reported in the balance sheets of the Group approximate their fair values due to their immediate or short-term maturities.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

8. 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.

For the year ended 31 December

	Property investment and development		Financial services		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**–**	–	**–**	–	**–**	–
Segment result	**(679)**	(825)	**–**	–	**(679)**	(825)
Bank interest income					**–**	1
Unallocated corporate operating income					**1,744**	39
Unallocated corporate operating expenses					**(13,021)**	(3,690)
Finance costs					**(5,705)**	(4,549)
Share of results of associates	**(303)**	(3,640)	**–**	–	**(303)**	(3,640)
Loss before tax					**(17,964)**	(12,664)
Income tax credit					**48**	–
Loss for the year					**(17,916)**	(12,664)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

8. SEGMENT REPORTING *(Continued)*

Business segments *(Continued)*

	Property investment and development		Financial services		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets and liabilities						
Segment assets	**438**	6,600	**39,512**	39,512	**39,950**	46,112
Interest in associates	**91,605**	91,509	**–**	–	**91,605**	91,509
	92,043	98,109	**39,512**	39,512	**131,555**	137,621
Unallocated corporate assets					**1,269**	405
Total assets					**132,824**	138,026
Segment liabilities	**11,287**	10,243	**–**	19	**11,287**	10,262
Unallocated corporate liabilities					**66,198**	54,218
Total liabilities					**77,485**	64,480
OTHER INFORMATION						
Payables waived by the creditors	**(1,730)**	–	**–**	–	**(1,730)**	–
Impairment loss recognised in respect of available-for-sale investment	**6,537**	–	**–**	–	**6,537**	–
(Write-back) recognition of impairment loss recognised in respect of other receivables	**(14)**	179	**–**	–	**(14)**	179

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

8. SEGMENT REPORTING *(Continued)*

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		Malysis		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue	**–**	–	**–**	–	**–**	–
Segment assets	**25,540**	32,447	**127,284**	105,579	**132,824**	138,026
Capital expenditure incurred during the year	**–**	–	**–**	–	**–**	–

9. OTHER REVENUE

	2007	2006
	HK$'000	*HK$'000*
Bank interest income	**–**	1
Payables waived by the creditors	**1,730**	–
Write-back of impairment recognised in respect of other receivable	**14**	–
Sundry	**–**	39
	1,744	40

10. FINANCE COSTS

	2007	2006
	HK$'000	*HK$'000*
Interests on		
– bank and other borrowings wholly repayable within five years	**5,701**	4,548
– finance leases	**4**	1
	5,705	4,549

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

11. INCOME TAX CREDIT

	2007 *HK$'000*	2006 *HK$'000*
The amount represents:		
Hong Kong Profits Tax		
-overprovision in prior years	**48**	–

No provision for Hong Kong Profits Tax has been made the Group did not generate any estimated assessable profits in Hong Kong for the two years ended 31 December 2007 and 2006.

No provision for overseas taxation has been made as the overseas subsidiaries has no estimated assessable profits arising from their jurisdictions for the two years ended 31 December 2007 and 2006.

The tax credit for the years can be reconciled to the loss before tax per the consolidated income statement as follow:

	2007 *HK$'000*	2006 *HK$'000*
Loss before tax	**(17,964)**	(12,664)
Tax at the domestic income tax rate at 17.5% (2006:17.5%)	**(3,144)**	(2,216)
Tax effect of income not taxable for tax purpose	**(305)**	(1)
Tax effect of expenses not deductible for tax purpose	**3,396**	2,222
Tax effect arising from the associates	**(53)**	(637)
Tax effect of tax losses not recognised	**–**	714
Effect of different tax rates of subsidiaries operating in other jurisdictions	**106**	(82)
Overprovision in prior years	**48**	–
Income tax credit	**48**	–

At the balance sheet date, the Group has not recognised deferred tax assets in respect of cumulative unused tax losses of approximately HK$140 million (2006: 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 may be carried forward indefinitely.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

12. LOSS FOR THE YEAR

Loss for the year have been arrived at after charging/(crediting):

	2007	2006
	HK$'000	*HK$'000*
Contributions to the retirement benefit scheme (including director's contribution)	**–**	11
Auditors' remuneration	**661**	380
(Write-back) impairment loss recognised in respect of other receivables	**(14)**	179
Operating lease rental on rented premise	**234**	223

13. DIRECTORS' REMUNERATION

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

For the year ended 31 December 2007

	Directors' fees	**Salaries, allowances and benefits in kind**	**Contributions to the retirement benefit scheme**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:				
Kong Li Szu	**–**	**–**	**–**	**–**
Kong Li Jer *(Note 1)*	**–**	**–**	**–**	**–**
Kong Lok King *(Note 1)*	**–**	**–**	**–**	**–**
Cham Yiu Keung *(Note 3)*	**36**	**–**	**–**	**36**
Tse On Kin *(Note 4)*	**–**	**–**	**–**	**–**
Chan Chi Yuen, Ken *(Note 2)*	**440**	**–**	**–**	**440**
Independent non-executive directors:				
Lo Miu Sheung, Betty *(Note 2)*	**55**	**–**	**–**	**55**
Wong Yun Kuen *(Note 4)*	**45**	**–**	**–**	**45**
Chan Chiu Hung *(Note 10)*	**100**	**–**	**–**	**100**
Lo Tat Shing *(Note 5)*	**28**	**–**	**–**	**28**
	704	**–**	**–**	**704**

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

13. DIRECTORS' REMUNERATION *(Continued)*

For the year ended 31 December 2006

	Directors' fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Contributions to the retirement benefit scheme *HK$'000*	Total *HK$'000*
Executive directors:				
Kong Li Szu	–	–	–	–
Kong Li Jer *(Note 1)*	–	–	–	–
Kong Lok King *(Note 1)*	–	–	–	–
Cham Yiu Keung *(Note 6)*	70	–	–	70
Independent non-executive directors:				
Ku Suen Fai *(Note 8)*	15	–	–	15
Ip Man Tin, David *(Note 7)*	100	–	–	100
Sin Wai Chiu, Joseph *(Note 9)*	30	–	–	30
Chan Chiu Hung *(Note 10)*	58	–	–	58
Lo Tat Shing *(Note5)*	49	–	–	49
	322	–	–	322

Notes:

1. Resigned on 15 February 2007
2. Appointed on 15 February 2007
3. Resigned on 20 April 2007
4. Appointed on 20 April 2007
5. Appointed on 9 June 2006 and resigned on 9 May 2007
6. Appointed on 20 June 2006 and resigned on 20 April 2007
7. Resigned on 17 October 2006
8. Resigned on 23 February 2006
9. Resigned on 24 March 2006
10. Appointed on 9 June 2006

For the two years ended 31 December 2007 and 2006, no emoluments have been paid by the Group to any directors of the Company as an inducement to join or upon joining the Group, or as compensation for loss of office for two years ended 31 December 2007 and 2006.

No director waived his emoluments in the years ended 31 December 2007 and 2006. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any director for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

14. EMPLOYEE'S EMOLUMENTS

During the year, the five highest paid individuals included, four directors (2006: four directors) of the Company whose emoluments have been included in note 13. The emoluments of the remaining one individual (2006: one individual) are for the two years ended 31 December 2007 and 2006 are as follows:

	2007	2006
	HK$'000	*HK$'000*
Salaries allowances and benefits in kind	**300**	265
Contributions to the retirement benefit scheme	**–**	11
	300	276

The emoluments of the one individual (2006: one individual) are within the following bands:

	Number of individuals	
	2007	2006
Nil – HK$1,000,000	**1**	1

For the years ended 31 December 2007 and 2006, no emoluments were paid by the Group to the five highest paid individuals (including directors and other employees) as an inducement to join or upon joining the Group or as a compensation for loss of office.

No director waived his emoluments for the two years ended 31 December 2007 and 2006.

15. DIVIDEND

No dividend was paid or proposed during the two years ended 31 December 2007 and 2006, nor has any dividend been proposed since the balance sheet date.

16. LOSS PER SHARE

The calculation of basic loss per share for the year is based on the loss for the year attributable to equity holders of the Company of HK$17,915,000 (2006: HK$12,663,000) and the weighted average number of 2,561,167,000 (2006: 2,561,167,000) ordinary shares in issue during the year.

No diluted loss per share has been presented for the two years ended 31 December 2007 and 2006 as there were no diluting events existed during those years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

17. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**5,000**	5,000
Less: impairment loss	**(5,000)**	(5,000)
	–	–

(a) Impairment loss recognised in respect of investments in subsidiaries

The amount of HK$5,000,000 (2006: HK$5,000,000) represents the investment cost in a subsidiary, namely Peace Hill Securities Company Limited ("Peace Hill"). The main assets of Peace Hill are the investments in an associate, namely Koffman Securities Limited ("Koffman Securities"), operating in the business of securities broking and investment that were reported as discontinued operations in 2004, and a subsidiary, namely Dual Aim Sdn. Bhd., remaining inactive during 2007 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.

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

			Proportion of nominal value of issued and paid up capital			
Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Bakeland Company Limited	Hong Kong	15,120 shares of HK$100 each	94.45%	–	94.45%	Inactive
Best Spot Investments Limited ("Best Spot")	Hong Kong	2 shares of HK$1 each	100%	–	100%	Investment holding
Bestwick Limited	Hong Kong	2 shares of HK$1 each	100%	100%	–	Investment holding
Dual Aim. Management Sdn. Bhd	Malaysia	3 shares of MYR1 each	100%	–	100%	Provision of management services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

17. INTERESTS IN SUBSIDIARIES *(Continued)*

(b) *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of nominal value of issued and paid up capital			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
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
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%	–	Inactive

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

17. INTERESTS IN SUBSIDIARIES *(Continued)*

(b) *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid up capital	Proportion of nominal value of issued and paid up capital			Principal activity
			Group's effective interest	Held by the Company	Held by a subsidiary	
Peace Hill	Hong Kong	5,000,000 shares of HK$1 each	100%	100%	–	Investment holding
Star Wave Investments Limited	Hong Kong	1 share of HK$1 each	100%	100%	–	Inactive
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
Win Johnson Investment Limited	Hong Kong	2 shares of HK$1 each	100%	100%	–	Inactive

None of the subsidiaries had issued any debt securities subsisting at the end of the year or any time during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

18. AMOUNTS DUE FROM (TO) SUBSIDIARIES

	The Company	
	2007	2006
	HK$'000	*HK$'000*
Amounts due from subsidiaries	**618,184**	618,187
Less: Impairment loss	**(522,497)**	(522,497)
	95,687	95,690
Amounts due to subsidiaries	**(28,106)**	(17,135)

(a) 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 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.

In view of the uncertainty of the recovery of the outstanding balance in those subsidiaries which 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 loss on the amounts due from subsidiaries. As at 31 December 2007, there is accumulated impairment loss of approximately HK$522,497,000 (2006: HK$522,497,000) recognised on the 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 18(b)(i) and (ii).

(b) Movements of impairment losses recognised in respect of amounts due from subsidiaries are analysed as follows:

	The Company	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**522,497**	518,788
Impairment loss recognised during the year	**–**	3,709
At 31 December	**522,497**	522,497

At 31 December 2007 and 31 December 2006, the accumulated impairment losses recognised in respect of amounts due from subsidiaries by business segment are as follows:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

18. AMOUNTS DUE FROM (TO) SUBSIDIARIES *(Continued)*

(b) *(Continued)*

The Company

	Continuing operations			Discontinued operations				
	Property investment and development	Financial services	Sub-total	Securities broking and investments	Trading of computer products and office equipment	Information technology	Sub-total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
2007 and 2006	307,345	203,564	510,909	2,385	7,473	1,730	11,588	522,497

(i) Impairment losses recognised in respect of amount due from subsidiaries which engaged in property investment and development business, and financial services business:

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 loss on the amounts due from subsidiaries. As at 31 December 2007, the accumulated impairment loss made of approximately HK$307,345,000 (2006: HK$307,345,000) and HK$203,564,000 (2006: HK$203,564,000) on the amounts due from the subsidiaries which operating in the property investment and development business and the financial services business, respectively and the directors consider that the accumulated impairment loss are sufficient and no additional impairment loss is made in the current year.

(ii) Impairment losses recognised in respect of amounts due from subsidiaries which 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 made a full impairment on the aggregate amount of approximately HK$11,588,000 due from the subsidiaries in prior years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTERESTS IN ASSOCIATES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Cost of investments in unlisted associates	**93,468**	93,468
Share of post-acquisition results, net of dividends received	**(2,262)**	(1,959)
Exchange realignments	**399**	–
	91,605	91,509

Included in the cost of investment in associates is a goodwill of approximately HK$14,568,000 (2006:HK$14,568,000) arising on acquisitions of an associate in prior years.

(a) As at 31 December 2007, the Group had interests in the following associates:

				Proportion of nominal value of issued capital and paid up capital			
Name of associate	**Form of business structure**	**Place of incorporation and operation**	**Class of share held**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
United Victoria Sdn. Bhd. ("United Victoria")*	Incorporated	Malaysia	ordinary shares	50%	–	50%	Investment holding
Aset Nusantara Development Sdn. Bhd. ("Aset Nusantara")*	Incorporated	Malaysia	ordinary shares	21%	–	42%	Property development

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTERESTS IN ASSOCIATES *(Continued)*

(b) Goodwill on acquisition of United Victoria

The goodwill arose from the acquisition of United Victoria, which holds 42% equity interest in Aset Nusantara.

During the year ended 31 December 2007, United Victoria prepared the cash flow forecast (the "Forecast") based on (i) Aset Nusantara's intention to sell the major asset which represents a land use right and (ii) its expectation to generate a dividend yield of 5% afterwards. The proceeds from sale of the land use right are based on the valuation performed by Raja Hamzah & Associates, an independent valuer and a registered valuer in Malaysia. The valuation was determined by reference to recent market prices for similar properties. The Forecast is approved by the managements of the United Victoria and Aset Nusantara.

The directors of the Company are of the opinion, based on the Forecast, that the recoverable amount exceeds its carrying amount in the consolidated balance sheet and no impairment loss on goodwill is considered as necessary.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTERESTS IN ASSOCIATES *(Continued)*

(c) The summarised unaudited financial information in respect of the Group's associates is set out below:

	2007	2006
	HK$'000	*HK$'000*
Total assets	**887,166**	826,364
Total liabilities	**(404,625)**	(357,240)
Net assets	**482,541**	469,124
Group's share of net assets of associates	**77,037**	76,941
Revenue	**889**	–
Loss for the year	**(1,441)**	(14,326)
Group's share of results of associates for the year	**(303)**	(3,640)

(d) As at 31 December 2006, Aset Nusantara experienced financial difficulties and has defaulted the repayments of certain bank borrowings. As at 31 December 2007, Aset Nusantara is negotiating with its bank with to reschedule the repayment terms of its indebtedness.

As at 31 December 2007, Aset Nusantara had the following outstanding litigations:

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTERESTS IN ASSOCIATES *(Continued)*

(d) *(Continued)*

(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 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. As at 31 December 2007, Aset Nusantara has fully settled the judgement sum and all proceedings in courts has been withdrawn and terminated and the file had been closed during the year ended 31 December 2007.

(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. As at 31 December 2007, Aset Nusantara has fully repaid the outstanding balances to the material supplier during the year ended 31 December 2007. The legal proceeding has been withdrawn and terminated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTERESTS IN ASSOCIATES *(Continued)*

(d) *(Continued)*

(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. Asset 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.

During the year ended 31 December 2007, the customers and Aset Nusantara reached a consensus on schedule of payment. 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. The damages of approximately HK$26,000 and other costs of approximately HK$2,000 have been repaid in full during the year ended December 2007.

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. During the year ended 31 December 2007, Aset Nusantara refunded approximately HK$304,000 and paid damages of approximately HK$329,000 to the customers according to the schedule of payment. As at 31 December 2007, the legal proceedings were discontinued and terminated.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

19. INTEREST IN ASSOCIATES *(Continued)*

(d) *(Continued)*

(iii) Customers of Aset Nusantara (Continued)

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 the financial statements of Aset Nusanatara prepared on a going concern basis is appropriate, notwithstanding the financial and liquidity position of Aset Nusantara as at 31 December 2007.

20. AVAILABLE-FOR-SALE INVESTMENT

	2007	2006
	HK$'000	*HK$'000*
Unlisted shares, at cost	**6,537**	6,537
Less: Impairment loss recognised	**(6,537)**	–
	–	6,537

The above investment represents the Group's investment in 5% equity interest in Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), a private company incorporated in Malaysia having issued share capital of MYR50,000,000. Pioneer Heritage is principally engaged in property holding in Malaysia. It is measured at cost less impairment at each balance sheet date because the range of reasonable fair value estimate is so significant that the directors of the Company are of the opinion that its fair value cannot be measured reliably.

At the balance sheet date, the directors of the Company conducted a review of the above investment. According to the latest available financial information, Pioneer Heritage was short of cash. The directors considered that it is unlikely for any future cash flow that would be flowed into the Company, a full impairment loss is of approximately HK$6,537,000 is recognised on this investment during the year ended 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

21. LOAN AND INTEREST RECEIVABLES

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Loan receivables		
Secured		
– amount due from a shareholder of an associate *(note(a))*	**39,510**	39,510
Unsecured		
– amounts due from others *(note(b))*	**49,683**	49,683
Gross loan receivables	**89,193**	89,193
Less: Impairment loss recognised		
Unsecured loan receivables		
– amounts due from others *(note(b))*	**(49,683)**	(49,683)
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))*	**4,526**	4,526
Gross interest receivables	**9,884**	9,884
Less: Impairment loss recognised	**(9,884)**	(9,884)
Net interest receivables	**–**	–
	39,510	39,510

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

21. LOAN AND INTEREST RECEIVABLES *(Continued)*

(a) Secured loans and interest receivables

Amount due from a shareholder of an associate

At 31 December 2007 the Group had a loan receivable of approximately HK$39,510,000 (2006: HK$39,510,000) and a loan interest receivable of approximately HK$5,358,000 (2006: 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 as at 31 December 2007.

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 (2006: 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.

At 31 December 2007, the carrying value of the collateral was exceeded the carrying value of the outstanding loan receivables.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

21. LOAN AND INTEREST RECEIVABLES *(Continued)*

(b) Unsecured loan and interest receivables

Amounts due from others

As at 31 December 2007, the Group had loan receivables of approximately HK$49,683,000 (2006: HK$49,683,000) and interest receivables of HK$4,526,000 (2006: HK$4,526,000) due from some independent third parties.

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 (2006: HK$49,683,000) and on interest receivables of approximately HK$4,526,000 (2006: HK$4,526,000). For the year ended 31 December 2006, the directors concluded it is appropriate to write-off the loan receivables of approximately HK$9,470,000 and interest receivables of approximately HK$468,000 against impairment losses in light of the bankruptcy or winding up of the debtors. For the year ended 31 December 2007, directors reassessed the position and of the opinion that the accumulated impairment loss is adequate.

(c) Movements of impairment losses recognised in respect of loan and interest receivables are analysed as follows:

	2007	2006
	HK$'000	*HK$'000*
Loan receivables		
At 1 January	**49,683**	65,820
Write-off		
– amount due from an independent third party	**–**	(6,667)
– amount due from others	**–**	(9,470)
At 31 December	**49,683**	49,683
Interest receivables		
At 1 January	**9,884**	10,352
Write-off		
– amount due from others	**–**	(468)
At 31 December	**9,884**	9,884

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. CONSIDERATION RECEIVABLES

	2007	2006
	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
	7,609	75,865
Short-term investment		
Kong Sheng – amount due from Beijing Tianheng *(note (c))*	–	7,652
	7,609	83,517
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)
	(7,609)	(75,865)
Short term investment		
Kong Sheng – amount due from Beijing Tianheng *(note (c))*	–	(7,652)
	(7,609)	(83,517)
	–	–

(a) Disposal of 65% interest in Pioneer Heritage, a subsidiary, and amount due from Pioneer Heritage

As at 31 December 2007, included in above is an amount of approximately HK$7,609,000 (2006: HK$7,609,000) due from 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. CONSIDERATION RECEIVABLES *(Continued)*

(a) Disposal of 65% interest in Pioneer Heritage, a subsidiary, and amount due from Pioneer Heritage *(Continued)*

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 taking into consideration of the financial information in relation to Pioneer Heritage, the directors made a full impairment on the outstanding net consideration receivables of approximately HK$7,609,000. The impairment of approximately HK$7,609,000 on the consideration receivable was firstly recognised in 2004 as over the years the Group and Pioneer Heritage were unable to reach a consensus on the terms and schedule of repayment and that the amount under consideration was overdue.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. CONSIDERATION RECEIVABLES *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng

As at 31 December 2006, included above is an amount of approximately HK$68,256,000 (2006: HK$68,256,000) 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 Transfer and Second Transfer resulting in the disposal of 80.1% interest in Kong Sheng, the Group's investment in the 10% interest in Kong Sheng was accounted for as short-term investment in accordance with the Group's accounting policy.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. CONSIDERATION RECEIVABLES *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng *(Continued)*

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

Pursuant to a settlement agreement dated 10 May 2004 (the "Settlement Agreement") entered into between Best Spot and Beijing Tianheng, Beijing Tianheng agreed to pay an aggregate amount of approximately HK$89,719,000 to Best Spot in respect of the First Transfer 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. CONSIDERATION RECEIVABLES *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng *(Continued)*

The Second Payment due from Beijing Tianheng was originally due for repayment in January 2005, which is within three months from the date of 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 2007, a sum of approximately HK$8,706,000 (2006: 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.

With the advice by the Company's PRC legal advisor, the possibility to recover the outstanding balance due from Beijing Tainheng is remote, the Group had written off the entire consideration receivable during the year ended 31 December 2007.

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. During the year ended 31 December 2007, the Group had settled the balance due to Public Bank in full amouting to HK$4,525,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

22. CONSIDERATION RECEIVABLES *(Continued)*

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

Included above is an amount of approximately HK$7,652,000 (2006: 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.

With the advice by the Company's PRC legal advisor, the possibility to recover the outstanding balance due from Beijing Tainheng is remote, the Group had written off the entire consideration receivable during the year ended 31 December 2007.

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

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**83,517**	83,517
Amound written off as uncollectible– amount due from Beijing Tianheng	**(75,908)**	–
At 31 December	**7,609**	83,517

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

23. TRADE AND OTHER RECEIVABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(note (a))*	**–**	–	**–**	–
Other receivables *(note (b))*	**21**	21	**–**	–
Prepayments and deposits	**340**	49	**338**	47
Amount due from an associate *(note (c))*	**353**	326	**–**	–
	714	396	**338**	47

(a) Trade receivables

The aging analysis of trade receivables as of the balance sheet date:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
1-2 year	–	14,937
Over 2 years	**14,937**	–
	14,937	14,937
Less: Impairment loss recognised	**(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 2007, accumulated impairment losses of approximately HK$14,937,000 (2006: HK$14,937,000) were 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/or were due from debtors with financial difficulties.

The Group does not hold any collateral over these balances.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

23. TRADE AND OTHER RECEIVABLES *(Continued)*

(b) Other receivables

As at 31 December 2007, the directors concluded the accumulated impairment loss made of approximately HK$4,615,000 (2006: HK$4,629,000) on other receivables of the Group, 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 that some other receivables were due from debtors with financial difficulties, are adequate.

Movements of impairment losses are analysed as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
At 1 January	**4,629**	4,450
(Write-back) recognition of impairment loss recognised in respect of other receivable	**(14)**	179
At 31 December	**4,615**	4,629

(c) Amount due from an associate

The amount due from Aset Nusantara is unsecured, interest-free and is payable on demand.

24. PLEDGED DEPOSITS

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

The pledged deposits carried interest at the rate of 3.88% per annum for both years.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

25. BANK BALANCES AND CASH

The bank balances that are denominated in currencies other than the functional currency of the relevant group entities as follow:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
Singapore dollars ("SDG")	**2**	9	**–**	–
Malaysian Ringgit ("MYR")	**1**	16	**–**	–

Bank balances carries interest at prevailing market rate for both years.

26. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables *(note (a))*	**4,564**	4,000	**–**	–
Accrued charges	**10,312**	12,165	**5,557**	6,739
Other payables *(note(b))*	**–**	–	**–**	4,246
Interest payables	**12,014**	8,460	**10,861**	7,740
Deposits received	**127**	127	**–**	–
Amount due to a shareholder *(note (c))*	**2,340**	1,448	**–**	–
Amounts due to related companies *(note (c))*	**142**	700	–	–
Amounts due to directors *(note (c))*	**5,768**	2,551	**3,429**	991
	35,276	29,451	**19,847**	19,716

As at 31 December 2007, the trade and other payables were repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year or on demand	**23,515**	29,451	**8,986**	19,716
After 1 year but within 5 years	**11,761**	–	**10,861**	–
	35,276	29,451	**19,847**	19,716

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

26. TRADE AND OTHER PAYABLES *(Continued)*

(a) Trade payables

The following is an aging analysis of trade payables as of the balance sheet date:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
1-2 years	**–**	4,000
Over 2 years	**4,564**	–
	4,564	4,000

Included in trade payables are amounts of approximately MYR1,834,000, equivalent to HK$4,077,000 (2006: MYR1,834,000, equivalent to HK$3,513,000) which are denominated in MYR.

(b) Other payables

The amount represented 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 was probable that an outflow of economic benefits would be required by the Company to settle its financial obligations. Accordingly, an amount of approximately HK$4,246,000 consisting of bank borrowings of approximately HK$3,779,000 and interest thereon of approximately HK$467,000 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 32(b) respectively.

(c) Amounts due to related companies/a shareholder/directors

The amounts due to related companies/a shareholder/directors are unsecured, interest-free and repayable on demand. Mr. Kong Li Szu, the executive director of the Company, is also the director of the relates companies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BANK AND OTHER BORROWINGS

As at 31 December 2007, the bank and other borrowings were repayable as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year or on demand				
– bank borrowings	**–**	12,683	**–**	8,904
– other borrowings	**4,570**	20,486	**2,770**	20,486
	4,570	33,169	**2,770**	29,390
After 1 years but within 5 years				
– other borrowings	**37,639**	1,800	**21,639**	–
	42,209	34,969	**24,409**	29,390

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank borrowings				
– secured *(note (a))*	**–**	9,973	**–**	6,194
– unsecured *(note (b))*	**–**	2,710	**–**	2,710
	–	12,683	**–**	8,904
Other borrowings				
– secured *(note (c))*	**14,700**	14,700	**14,700**	14,700
– unsecured *(note (d))*	**27,509**	7,586	**9,709**	5,786
	42,209	22,286	**24,409**	20,486
	42,209	34,969	**24,409**	29,390

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BANK AND OTHER BORROWINGS *(Continued)*

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 relevant group entity to which they relate:

	The Group		The Company	
	2007	2006	**2007**	2006
	'000	*'000*	***'000***	*'000*
United States Dollars ("USD")	**–**	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 bore interests at 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. Details are set out in note 32(a). The outstanding balance has been assigned to an independent third party during the year ended 31 December 2007 and included in other unsecured borrowings of approximately HK$6,939,000 as at 31 December 2007. Details of which are set out in note 27(d)(iv).

(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 bore interest at 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 32(b)); and
- corporate guarantee executed by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BANK AND OTHER BORROWINGS *(Continued)*

(a) Secured bank borrowings *(Continued)*

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

In 2003, the Group defaulted the repayments of the borrowings due to Public Bank. As a consequence, on 11 February 2004, an action was commenced by Public Bank against Xswim Technology, a non-wholly owned subsidiary of the Company, and the Company for the immediate full repayment of the outstanding borrowings together with interest thereon, cost and/or other relief. Details are set out in note 32(b). The borrowing were repaid in full during the year ended 31 December 2007.

(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 due to DBS, of which approximately HK$502,000 bore interest at 26.4% per annum and approximately HK$2,208,000 bore 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 32(c).The borrowing were repaid in full during the year ended 31 December 2007.

(c) Other borrowings, secured

i) At 31 December 2007, the Group's and the Company's other borrowings of approximately HK$13,700,000 (2006: HK$13,700,000) due to a financial institution bears interest at 15% (2006: 15%) per annum and are secured by the following:

(i) personal guarantees from Mr. Kong Li Jer (a former director of the Company) and Mr. Kong Li Szu (the Company's director);

(ii) corporate guarantee granted 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. Detail of which are set out in note 22(b) and (c).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BANK AND OTHER BORROWINGS *(Continued)*

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

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 2007, the Group's and the Company's other borrowings of approximately HK$1,000,000 (2006: HK$1,000,000) due to a financial institution bore interest at 15% per annum and secured by the following:

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

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

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

In November 2006, the Group failed to repay in full in accordance with the repayment schedule. 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.

(d) Other borrowings, unsecured

(i) At 31 December 2007, the Group's other borrowings of approximately HK$1,800,000 (2006: 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 full on 29 April 2008.

(ii) A Potential Investor

As at 31 December 2006, the Group's and the Company's other borrowings of approximately HK$3,016,000 due to an independent third party (the "Potential Investor") are interest-free and secured by corporate guarantees executed by Kong Fa Holdings Limited ("KongFa"), a controlling shareholder of the Company, and Kong Sun Enterprises Sdn. Bhd. ("KSE"), a substantial shareholder of the Company. Mr. Kong Li Jer, a former director, is a director and a shareholder of Kong Fa and KSE. Mr. Kong Li Szu ("Mr. Kong"), a director of the Company, is a director and a shareholder of Kong Fa.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

27. BANK AND OTHER BORROWINGS *(Continued)*

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

(ii) A Potential Investor *(Continued)*

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 of 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 of 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. The balance has been fully repaid during the year ended 31 December 2007. The Further details are set out in note 32(d).

(iii) At 31 December 2007, the Group's and the Company's other borrowings of approximately HK$2,770,000 (2006: HK$2,770,000) was due to an independent third party and are interest-free and have no fixed terms of repayment.

(iv) At 31 December 2007, the Group's and the Company's other borrowings of approximately HK$22,939,000 (2006:Nil) and HK$6,939,000 (2006: Nil) respectively were due to an independent third party and are carried at an interest rate of 7.25% 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 HK$26,620,000, respectively and interest payables of approximately HK$8,207,000 and HK$7,740,000, respectively. These amounts have been classified as current liabilities. An analysis of defaulted borrowings and interest thereon is as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal				
– bank borrowings	–	12,683	–	8,904
– other borrowings	–	17,716	–	17,716
	–	30,399	–	26,620
Interest payables	–	8,207	–	7,740
	–	38,606	–	34,360

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

28. OBLIGATIONS UNDER FINANCE LEASES

The Group

	2007		2006	
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
	Present value of minimum lease payments	**Total minimum lease payments**	Present value of minimum lease payments	Total minimum lease payments
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
Within one year	**–**	**–**	12	16
Less: total future interest expenses		**–**		(4)
Present value of lease obligations		**–**		12

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 carrying value of the equipment held under finance leases of the Group was Nil (2006: 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 and interest element of approximately 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 and interest element of approximately HK$2,000 originally repayable after 1 year but within 2 years at 31 December 2007 have been reclassified under current liabilities. Capital and interest element had been repaid in full during the year ended 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

29. SHARE CAPITAL AND RESERVES

	2007		2006	
	Number of shares	**Amount**	Number of shares	Amount
	'000	***HK$'000***	*'000*	*HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each				
At 1 January and 31 December	**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 the 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.

Reserves of 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 2006	256,116	329,049	20	(544,366)	40,819
Loss for the year	–	–	–	(11,320)	(11,320)
At 31 December 2006 and 1 January 2007	256,116	329,049	20	(555,686)	29,499
Loss for the year	–	–	–	(5,833)	(5,833)
At 31 December 2007	256,116	329,049	20	(561,519)	23,666

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

29. SHARE CAPITAL AND RESERVES *(Continued)*

(a) Nature and purpose of reserves *(Continued)*

(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 as stated in note 4.

(b) Distributability of reserves

As at 31 December 2007 and 2006, the Company had no reserve available for distribution to equity holders of the Company.

30. SHARE OPTION SCHEME

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

31. 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 the 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 subsidiary 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.

32. LITIGATION

(a) 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. LITIGATION *(Continued)*

(a) ICIC *(Continued)*

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

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. In November 2007, the Group repaid in full the bank borrowing to the Public Bank.

(c) 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.

NOTES TO THE FINANCIAL STATEMENTS

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32. LITIGATION *(Continued)*

(d) A Potential Investor

Pursuant to the agreements dated 13 April 2005 and 10 October 2005, the Potential Investor granted the Company a credit facilities of HK$5,000,000 which were secured by corporate guarantees executed by shareholders of the Company, Kong Fa and KSE, 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 the Potential Investor against the Company and 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. The balance was fully repaid during the year ended 31 December 2007.

(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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. LITIGATION *(Continued)*

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

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. As at 31 December 2007, 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. LITIGATION *(Continued)*

(g) 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, 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

32. LITIGATION *(Continued)*

(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. For the year ended 31 December 2007, the Group repaid in full a sum of approximately HK$850,000 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. The balance was settled in full during the year ended 31 December 2007.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

33. 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 this 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.

(b) Corporate guarantees in respect of banking facilities granted to the subsidiary

As at 31 December 2006, the Company issued corporate guarantees to the extent of approximately 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. As at 31 December 2007, all banking facilities had been cancelled.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

34. RELATED PARTY TRANSACTIONS

Compensation of directors and key management personnel

The remuneration of directors and other members of key management during the year was as follows:

	The Group	
	2007	2006
	HK$'000	*HK$'000*
Short-term employee benefits	**1,004**	587
Post-employment benefits	**–**	11
	1,004	598

The remuneration of directors and key executive is determined by the Remuneration Committee having regards to the performance of individuals and market trends.

The balances with related parties are disclosed in notes 19, 23 and 26, respectively.

35. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the Group has entered the following non-cash transactions:

(i) One of the directors has repaid the bank and other borrowings of approximately HK$3,016,000 on behalf of the Group; and

(ii) As stated in note 32(a), HK$6,939,000 in relation to the bank borrowings (HK$6,194,000) together with interest thereon and the litigation expenses (HK$745,000) due by the Company to ICIC was assigned by ICIC to an independent third party.

36. 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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. POST BALANCE SHEET EVENTS *(Continued)*

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

- 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 on or before 31 May 2008 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 on 17 January 2008 the necessary resolution approving the increase of authorised shares capital from HK$400,000,000 to HK$4,000,000,000.

- On 24 April 2008, the Company and the Placing Agent entered into a supplemental agreement whereby the Company and the Placing Agent agreed to increase the aggregate principal amount of the convertible bonds form HK$100,000,000 to HK$125,000,000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. POST BALANCE SHEET EVENTS *(Continued)*

(b) 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. POST BALANCE SHEET EVENTS *(Continued)*

(b) Acquisition of subsidiaries *(Continued)*

(i) Life-like plant business (Continued)

If any of the following conditions set out in the FT Agreement are not satisfied on or before 31 May 2008 or such later date as the parties may otherwise agree, the FT Agreement will automatically terminate with immediate effect and neither party thereto shall have any obligations and liabilities thereunder:

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. POST BALANCE SHEET EVENTS *(Continued)*

(b) Acquisition of subsidiaries *(Continued)*

(i) Life-like plant business (Continued)

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

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

(ii) Property investment

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

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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. POST BALANCE SHEET EVENTS *(Continued)*

(b) Acquisition of subsidiaries *(Continued)*

(ii) Property investment (Continued)

If the following conditions, inter alia, are not satisfied on or before 31 May 2008, 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.

The aforesaid acquisitions had been approval by the shareholders meeting on 17 January 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

36. POST BALANCE SHEET EVENTS *(Continued)*

(c) Memorandum of understanding in respect of property development in Cambodia

On 10 April, 2008, Elite Corner Limited ("Elite Corner"), a wholly owned subsidiary of the Company and Ms. Chau Dinh Nhi ("Ms. Chau"), an independent third party and not a connected person of the Company, entered into a Memorandum of Understanding (the "MOU"), under which, Ms. Chau granted a sole and exclusive right to Elite Corner to develop a piece of land with a total area of approximately 37,498 square metres located in the Siem Reap province of Cambodia (the "Land") into hotel resort and commercial complex (the "Cooperation Project").

The MOU is legally binding between Elite Corner and Ms. Chau (collectively refer to the "Parties"). Both Parties also agreed in principle that (a) Ms. Chau shall grant to Elite Corner an exclusive right to develop the Cooperation Project which Ms. Chau shall bear all the development and construction costs arising out of and incidental to the Cooperation Project; (b) Elite Corner shall provide management services (the "Management Services"), including but not limited to, (i) design of the hotel resort and commercial complex; (ii) market research; and (iii) engagement of professionals including, but not limited to, surveyors, architectures, interior designers and engineers whom are necessary for the design work of the Cooperation Project; and (c) subject to the entering into of the formal agreement ("Formal Agreement"), Ms. Chau shall pay Elite Corner the management fee equivalent to 15% of the total development and construction costs of the Cooperation Project.

Pursuant to the terms of the MOU, Elite Corner has the sole and exclusive right for the period from 10 April, 2008 up to the signing of the Formal Agreement or on 9 April, 2009, whichever is earlier ("Exclusivity Period") to negotiate with Ms. Chau with a view to agreeing on the terms of and executing the Formal Agreement. During the Exclusivity Period, Ms. Chau will not, without prior consent of Elite Corner, enter into discussions or negotiations with, or provide any information concerning the Land or the Cooperation Project to any third party. Ms. Chau also undertakes that if the Parties fail to enter into the Formal Agreement within the Exclusivity Period for whatever reason, Ms. Chau shall fully reimburse Elite Corner 115% of any fees, costs and expenses arising from the Management Services already paid by Elite Corner.

Details of which are set out in the announcement dated 11 April 2008.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2007

37. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2007, the directors consider the immediate parent and ultimate controlling party of the Group to be Kong Fa, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

The acquisition aforesaid acquisit had been approval by the shareholders meeting subsequent to the year end.

38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the currents year's presentation.

FIVE-YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December						
	2007	2006	2005	2004		2003	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				Continuing operations	Discontinued operations	Continuing operations	Discontinued/ Discontinuing operations
TURNOVER	**–**	–	221	12,269	60	33,626	89,932
PROFIT/(LOSS) BEFORE TAXATION	**(17,964)**	(12,664)	(99,741)	(30,372)	373	(171,254)	(169,543)
Taxation	**48**	–	–	(164)	–	(1,267)	–
PROFIT/(LOSS) FOR THE YEAR	**(17,916)**	(12,664)	(99,741)	(30,536)	373	(172,518)	(169,543)
ATTRIBUTABLE TO:							
Equity holders of the Company	**(17,915)**	(12,663)	(99,735)	(30,335)	373	(172,760)	(168,323)
Minority interests	**(1)**	(1)	(6)	(201)	0	242	(1,220)
	(17,916)	(12,664)	(99,741)	(30,536)	373	(172,518)	(169,543)

ASSETS AND LIABILITIES AND MINORITY INTERESTS

	At 31 December						
	2007	2006	2005	2004		2003	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
				Continuing operations	Discontinued operations	Continuing operations	Discontinued/ Discontinuing operations
TOTAL ASSETS	**132,824**	138,026	137,923	242,872	–	262,161	19,101
TOTAL LIABILITIES	**(77,485)**	(64,480)	(57,669)	(62,885)	–	(71,495)	–
MINORITY INTERESTS	**(12)**	(13)	(14)	(20)	–	(221)	–
	55,327	73,533	80,240	179,967	–	190,445	19,101