



KONG SUN HOLDINGS LIMITED
江山控股有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 295)

2006 RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of Kong Sun Holdings Limited (the “Company”) presents the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2006 with comparative figures for the year ended 31 December 2005 as follows:

CONSOLIDATED INCOME STATEMENT

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

CONSOLIDATED BALANCE SHEET

	<i>Note</i>	2006	2005
		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current assets			
Fixed assets			
– Investment properties		–	–
– Property, plant and equipment		–	–
		–	–
Land lease prepayments		–	–
Goodwill		–	–
Interest in associates		91,509	88,572
Available-for-sale securities		6,537	6,537
		98,046	95,109
Current assets			
Property development		–	–
Land lease prepayments		–	–
Trade and other receivables	9	396	414
Loan and interest receivables		39,510	39,510
Consideration receivables		–	2,771
Pledged deposits		40	37
Cash and cash equivalents		34	82
		39,980	42,814
Current liabilities			
Trade and other payables	10	29,451	25,398
Bank and other borrowings		33,169	30,404
Obligations under finance leases		12	19
Tax payable		48	48
		62,680	55,869
Net current liabilities		(22,700)	(13,055)
Total assets less current liabilities		75,346	82,054
Non-current liabilities			
Bank and other borrowings		1,800	1,800
NET ASSETS		73,546	80,254
CAPITAL AND RESERVES			
Share capital		256,116	256,116
Reserves		(182,583)	(175,876)
Total equity attributable to equity holders of the Company		73,533	80,240
Minority interests		13	14
TOTAL EQUITY		73,546	80,254

Notes:

1. BASIS OF PREPARATION

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

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

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

(i) Attainment of profitable and positive cash flow operations

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

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

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

(iii) Additional external funding

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

(iv) Rescheduling of the repayment terms of indebtedness

The Group is actively negotiating with its bankers and creditors with a view to reschedule the repayment terms of its indebtedness. Nevertheless, the Group is also actively exploring the availability of alternative sources of financing should its negotiations with its current bankers and creditors not be fully successful.

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

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

2. STATEMENT OF COMPLIANCE

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

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adopted for the current accounting period of the Group and the Company. The adoption of these new and revised HKFRSs did not result in significant change to the Group’s accounting policies applied on these financial statements for the current and prior year presented. The Group has not applied any new and revised standards or interpretations that are not yet effective for the current accounting year.

3. TURNOVER

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

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

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Gross rental income from investment properties	–	119
Gross proceeds from properties sold	–	102
	<u>–</u>	<u>221</u>

4. OTHER REVENUE

	2006 <i>HK\$’000</i>	2005 <i>HK\$’000</i>
Bank interest income	1	9
Sundry	39	605
	<u>40</u>	<u>614</u>

5. LOSS BEFORE TAXATION

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

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

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

6. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

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

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

7. LOSS PER SHARE

(a) Basic loss per share

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

(b) Diluted loss per share

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

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.

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

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

Geographical segments

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

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

9. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are the trade debtors with the following ageing analysis as of the balance sheet date:

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

10. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables with the following ageing analysis as of the balance sheet date:

	The Group	
	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>
More than 3 months but within 6 months	–	877
Over 1 year	<u>4,000</u>	<u>3,123</u>
	<u>4,000</u>	<u>4,000</u>

INDEPENDENT AUDITOR'S REPORT

EXTRACT OF INDEPENDENT AUDITR'S REPORT

Basis for disclaimer of opinion

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

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

(2) *Scope limitation - Consideration receivables*

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

(3) *Material uncertainties relating to the going concern basis*

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

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

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

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

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

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

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

- the auditors have not obtained all the information and explanations that the auditors considered necessary for the purpose of their audit; and
- the auditors were unable to determine whether proper books of account had been kept.

LITIGATION

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

In 2003, the Group defaulted the repayments of the borrowings due to ICIC. ICIC formally demanded the Company for the immediate repayment of the borrowings in full together with accrued interest thereon. However, the Company was not able to make full repayment to ICIC. As a consequence, on 20 July 2004, an action was commenced by ICIC against the Company as 1st defendant for the immediate full repayment of the outstanding borrowings of approximately HK\$6,499,000 together with interest thereon of approximately HK\$447,000, cost and/or the relief. The action was also made against the Company's director, Mr. Kong Li Szu as 2nd defendant under a guarantee given by the director in favour of ICIC in respect of the borrowings granted to the Company. This case was heard by The High Court of The Hong Kong Special Administrative Region on 8 November 2004 and judgement was issued in favour of ICIC. The Company was required to repay the said bank borrowings in full together with the interest thereon and to bear the litigation expense. At 31 December 2006, the outstanding bank borrowings, interest thereon and litigation expense due to ICIC were approximately HK\$6,194,000 (2005: HK\$6,194,000), HK\$196,000 (2005: HK\$866,000) and HK\$311,000 (2005: HK\$311,000) respectively.

Following the Group's default in the settlement of the judgement debt, a winding-up petition was filed by ICIC against the Company on 13 December 2005. In April 2006, the Company entered into a settlement agreement with ICIC whereby the Company agreed to repay ICIC by monthly instalment of HK\$200,000 each commencing from May 2006 until the resumption of trading in the shares of the Company in the Stock Exchange when the then remaining balance will have to be settled by six equal monthly instalments and the winding-up petition will be dismissed. However, from May 2006 to February 2007, the Company has only repaid to ICIC an amount of approximately HK\$630,000. No action has been taken by ICIC in respect of the Group's default in repayment in accordance with the settlement agreement.

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

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

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

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

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

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

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

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

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

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

(d) A potential investor

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

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

(e) Mr. Cheung Yik Wang

On 3 November 2003, an action was commenced by Mr. Cheung Yik Wang (“CYW”), who claims himself as an investor of Easternet Limited which owns 46% of Xswim Holding which is a 54% owned subsidiary of the Company, against Mr. Kong Li Szu (“Mr. Kong”) as 1st defendant, the Company’s director, and the Company as 2nd defendant for recovering a sum of HK\$11,600,000 together with interest and costs in connection with a cheque issued on 20 December 2002 by the Company to CYW which was dishonoured upon presentation for payment. It was alleged that the cheque was issued by the Company as a guarantee for payment of a cheque issued by Mr. Kong. A defence was filed by the Company on 19 January 2004. CYW also filed a reply to defence on 17 February 2004. Up to the date of this announcement, this action is still in progress and no hearing date has been fixed.

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

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

(f) Ex-landlord

On 30 March 2004, an action was commenced by the landlord of the office premises of the Group (the “Ex-landlord”) against Pacpo Hong Kong Company Limited, 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 this announcement, 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 the financial statements.

(g) Koffman Securities Limited (“Koffman Securities”)

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

- (i) Kong Sun Resources would make good and pay to Koffman Securities of those Consideration Shares sold at a market price not less than HK\$0.375 per share in the period of thirty six months commencing from 10 June 2002 so that Koffman Securities would receive not less than HK\$0.375 per Consideration Share; and
- (ii) Kong Sun Resources granted Koffman Securities an option to repurchase the Premises for a consideration of HK\$21,000,000 at any time within a period of five years commencing from 10 May 2002, as security for the due and punctual performance of the alleged obligation mentioned in (i) above.

Koffman Securities claimed (i) against Kong Sun Resources to transfer the Premises to Koffman Securities for a consideration of HK\$21,000,000 or such consideration as the court may determine, and (ii) against Kong Sun Resources and Mr. Kong the sum of approximately HK\$12,889,000 being the total amount of outstanding differences in the price of the Consideration Shares disposed of and the alleged oral guarantee amount of HK\$0.375 per Consideration Share together with damages, interest, cost and/or other relief. Up to the date of this announcement, this action is still in progress and no hearing date has been fixed.

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

(h) Legal service provider

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

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

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

From March 2007 to the date of this announcement, the Group repaid a sum of approximately HK\$750,000 to the creditor.

(i) Valuation service provider

In 2004, the Company defaulted the payment of valuation fee due to a service provider. On 2 February 2005, an action was commenced by the service provider against the Company for approximately HK\$100,000 being overdue valuation fee together with interest, cost and/or other relief. Judgement was issued in favour of the service provider on 25 April 2005.

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

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

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

(j) An ex-employee

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

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

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 this announcement.

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 the financial statements.

(b) Long service payments

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

- (i) is dismissed by reason other than serious misconduct or redundancy;
- (ii) is certified by a registered medical practitioner as permanently unfit for the present job and the employee resigns;
- (iii) is aged 65 or above and the employee resigns; or
- (iv) dies in service.

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

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

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

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

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

	The Group		The Company	
	2006	2005	2006	2005
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantees of banking facilities granted to subsidiaries	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

NON-ADJUSTING POST BALANCE SHEET EVENTS

(a) Issue of convertible bonds

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

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

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

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

- the Stock Exchange granting the approval in principle to the resumption of trading in the shares of the Company following the completion of the resumption proposal of Company;
- the approval by the shareholders of the Company at an extraordinary general meeting to be convened and held for the purposes of approving the issue of the convertible bonds and the transactions contemplated thereunder; the allotment and issue of up to 1,000,000,000 shares of the Company falling to be issued on the exercise of the conversion rights attached to the convertible bonds; and the allotment and issue of up to 3,000,000,000 shares of the Company falling to be issued on the exercise of the conversion rights attached to the convertible bonds;
- the Listing Committee of the Stock Exchange granting or agreeing to grant, subject to allotment, and not having withdrawn or revoked listing of and permission to deal in all the conversion shares which may fall to be allotted and issued upon the exercise of the conversion rights attaching to the convertible bonds; and
- the shareholders of the Company passing at an extraordinary general meeting of the Company the necessary resolution approving the increase of authorised shares capital from HK\$400,000,000 to HK\$4,000,000,000.

(b) Third stage of delisting procedures

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

(c) Acquisition of subsidiaries

(i) Life-like plant business

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

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

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

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

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

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

- the approval by shareholders of the Company of the FT Agreement and the transactions contemplated thereunder, including without limitation, the issue of the convertible bonds and the execution of the promissory note, in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited; and
- the Stock Exchange granting or agreeing to grant listing of and permission to deal in the conversion shares which is subject only to allotment and matters ancillary thereto.

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

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

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

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

(ii) *Property investment*

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

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

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

- Lead Power being satisfied with the results of the due diligence review to be conducted;
- all necessary consents and approvals required to be obtained on the part of the Vendors in respect of the CK Agreement and the transactions contemplated thereby having been obtained;
- the passing by the shareholders of the Company at an extraordinary general meeting of the Company to be convened and held of an ordinary resolution to approve the CK Agreement and the transactions contemplated thereunder, including but not limited to the execution of the promissory note;

- the Purchaser having received from a firm of professional surveyors and valuers chosen by Lead Power a property valuation report on the properties held by CHL and KPIL showing that as at 15 June 2007 the value of the properties held by CHL and KPIL to be not less than the agreed amounts; and
- the representations, warranties and undertakings provided by the Vendors under the CK Agreement remaining true and accurate in all respects.

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

MANAGEMENT DISCUSSION AND ANALYSIS

Review of operations

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

The Group has experienced serious financial difficulties for the year ended 31 December 2006 and the results under review generally reflected the situation. Loss attributable to shareholders has been reduced to HK\$12,664,000 as compared to HK\$99,741,000 recorded in last year. Improving the financial condition of the Group becomes the primary target of the management in the coming year.

Property

The Group's property development and investment business, comprising mainly 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 poor performance of the Group.

Other investment opportunities

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

Financial Review

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

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

Prospects

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

FINAL DIVIDEND

The Board does not recommend to declare a dividend for the year ended 31 December 2006 at the forthcoming Annual General Meeting (2005: Nil).

SHARE OPTION SCHEME

The Company adopted a new share option scheme on 30 June 2003. No Options under the new share option scheme have been granted to any person since its adoption.

LIQUIDITY AND FINANCIAL RESOURCES

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

For the year ended 31 December 2006, most assets, liabilities and transactions of the Group are denominated in Hong Kong Dollars ("HK\$") and Malaysian Ringgit ("MYR"). In view of the currency stability on MYR, it did not have a significant impact on the performance of the Group. Hence, the Group had not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate active to reduce the exchange risks.

CHARGE ON THE GROUP ASSETS

As at 31 December 2006, certain of the Group's time deposit in the amount of HK\$40,000 (2005: HK\$37,000) had been pledged to a bank to secure the Group's banking facilities.

CAPITAL STRUCTURE

As at 31 December 2006, the Company had approximately 2,561 million shares in issue with total shareholders' fund of the Group amounting to approximately HK\$73.5 million. There has been no changes in the capital structure of the Company during the year.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2006, the Group has a total of 4 staffs located in Hong Kong and Malaysia. They are remunerated according to the nature of the job market trends, with built-in merit components incorporated in annual review to reward and motivate individual performance.

MATERIAL ACQUISITIONS AND DISPOSALS OF INVESTMENTS

During the year ended 31 December 2006, there were no material acquisitions or disposals of subsidiaries or affiliated companies.

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 reporting matters including a review of the audited financial statements of the Group for the year ended 31 December 2006 with the management.

CORPORATE GOVERNANCE

The Company has complied with the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2006, with deviations from code provisions A.2.1 and A.4.1 of the Code in respect of the service term and rotation of directors.

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

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2006.

MODEL CODE OF SECURITIES TRANSACTIONS BY DIRECTORS

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

CONTINUING DISCLOSURE REQUIREMENTS UNDER CHAPTER 13 OF THE LISTING RULES

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

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

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

At 31 December 2006, Kong Fa had pledged 596,052,085 ordinary shares of HK\$0.10 each of the Company to secure the loan facility and the outstanding loan balance was approximately HK\$6,194,000.

- b) Advance to entities under Rule 13.13 of the Listing Rules:
- (i) At 31 December 2006, the Group had a loan receivable of approximately HK\$39,510,000 and the accrued loan interest receivable of approximately HK\$5,358,000 due from a shareholder of the Group's associate, United Victoria (the "Borrower"). Pursuant to the loan agreement, interest of the loan is chargeable at 4% over prime rate per annum. The loan is secured by a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The repayment date of the loan together with interest thereon was extended to June 2005. The loan receivable balance of HK\$39,510,000 represented 49.2% of the Group's net assets at 31 December 2006. The Group is in the process of enforcing the repayment of the loan and interest receivables by realising the 20% equity interest in United Victoria secured thereto for settlement of the outstanding receivables.
 - (ii) At 31 December 2006, the Group had an amount of approximately HK\$78,679,000 due from Beijing Tianheng, representing the net consideration receivable on disposal of 90.1% interest of the registered capital of Kong Sheng. This consideration receivable is unsecured and interest free and has been fully provided for the year ended 31 December 2006.

PUBLICATION OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The Company's 2006 annual report, as well as the announcement of the annual results, containing all relevant information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited (<http://www.hkex.com.hk>) in due course.

BOARD OF DIRECTORS

As at the date of this announcement, the Board of the Company comprises three executive directors, namely Mr. Tse On Kin, Mr. Chan Chi Yuen and Mr. Kong Li Szu; three independent non-executive directors, namely, Dr. Wong Yun Kuen, Ms. Lo Miu Sheung, Betty and Mr. Chan Chiu Hung, Alex.

By Order of the Board
Tse On Kin
Chairman

Hong Kong, 10 September 2007