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**KONG SUN HOLDINGS LIMITED**

**江山控股有限公司**

*(incorporated in Hong Kong with limited liability)*

(Stock Code: 295)

**SUPPLEMENTAL ANNOUNCEMENT  
PROGRESS OF RESUMPTION OF TRADING**

Reference is made to the Announcement.

This announcement is to provide further information of the Proposal and updated information submitted to the Stock Exchange on 31 October 2007 and 23 June 2008 respectively about the Group in terms of, among other things, the releases of its financial results, its response to the auditor's qualifications on the financial statements of the Group after suspension and its plan and implementation of adequate and effective financial reporting system and internal control procedures.

Trading in the Shares has been suspended at the request of the Company since 9:30 a.m. on 17 June 2004 and will continue to be suspended until further notice.

Reference is made to the Announcement. Unless otherwise stated, terms used in this announcement shall have the same meanings as stated in the Announcement.

## RELEASES OF FINANCIAL RESULTS

After suspension of the trading in the Shares, the Company has published its annual results and interim results on the following dates: –

<u>Relevant results of the Company</u>	<u>Date of released</u>
2003 Annual Results	19 January 2005
2004 Interim Results	22 February 2005
2004 Annual Results	16 June 2006
2005 Interim Results	29 June 2006
2005 Annual Results	5 July 2007
2006 Interim Results	10 September 2007
2006 Annual Results	10 September 2007
2007 Interim Results	12 October 2007

## RESPONSES TO THE AUDITOR'S QUALIFICATIONS ON THE FINANCIAL STATEMENTS OF THE GROUP PUBLISHED AFTER SUSPENSION

### (A) Auditor's qualifications

A summary of the auditor's qualifications for each of the financial statements of the Group published after suspension is as follows: –

<b>Relevant results of the Company</b>	<b>Auditor's qualifications</b>	<b>Response and action taken by the Company</b>
2003 Annual Results	1. Fundamental uncertainties relating to the going concern basis	Details are refer to (B) 4
2004 Annual Results	1. Consideration receivables 2. Fundamental uncertainties relating to the going concern basis	Details are refer to (B) 1 and 4
2005 Annual Results	1. Loan and interest receivables 2. Consideration receivables 3. Fundamental uncertainties relating to the going concern basis 4. Property in development and general reserve	Details are refer to (B) 1, 2, 3 and 4
2006 Annual Results	1. Consideration receivables 2. Fundamental uncertainties relating to the going concern basis	Details are refer to (B) 1 and 4

## **(B) Company's response to the auditor's qualifications**

### *1. Consideration receivables*

The Group had consideration receivables of approximately HK\$86,288,000 in respect of disposal of 65% interest in Pioneer Heritage and 90.1% interest in Kong Sheng. Impairment of approximately HK\$7,609,000 and approximately HK\$75,908,000 had been made by the Company in 2004 Annual Results and 2005 Annual Results respectively as the Company was not able to obtain adequate information in assessing the financial ability of the receivables. Evidence provided to the then auditor was considered insufficient. The then auditor was not able to satisfy themselves as to whether the impairment against the consideration receivables, and in consequence the carrying amount of the consideration receivables were fairly stated.

The Company had received approximately HK\$2,771,000 during the year ended 31 December 2006 and impaired the consideration receivables of approximately HK\$83,517,000 for prudence's sake as the receivables failed to make any significant repayment since the amount was overdue. As more evidence was provided in the course of the audit for the 2007 Annual Results, the then auditor satisfied with the evidence and explanation and no such qualification was made in 2007 Annual Results.

### *2. Property in development and general reserves*

#### *(i) Property in development*

The Group had property in development with a carrying value of nil stated of write down of approximately HK\$2,080,000, of which was charged to the consolidated income statement for the year ended 31 December 2005. The property development in Malaysia held under a subsidiary of the Company was completed and all the residential properties had been sold in 2005. In view of this, the property in development would be of nil value as all the aggregated construction costs recorded as property in development prior to the completion of the project had to charge to income statement. All the revenue generated from the sales of properties had been recorded. However, the evidence provided to prove the completion of the project was considered insufficient by the then auditor. Full impairment on the property in development was made in the 2005 Annual Results by the Company but the then auditor issued a qualified opinion on limitation of scope in assessing the reasonableness of the impairment in the auditor's report of the 2005 Annual Results.

#### *(ii) General reserves*

The Group had a general reserve with a carrying amount of approximately HK\$18,000,000 as at 31 December 2005. Evidence provided by the Company in respect of the purpose and nature of the general reserve to the then auditor was considered insufficient that they were not able to satisfy themselves as to whether the carrying amount of the general reserve was fairly stated.

More evidence was provided to the then auditor on the completion of the property development project and the purpose and nature of the general reserve. The then auditor satisfied with the documents and explanation that no such qualification was issued in the 2006 Annual Results.

3. *Loan and interest receivables*

The Company had loan receivables of approximately HK\$39,510,000 stated net of an impairment of approximately HK\$65,820,000 which was made in prior years, and had interest receivables of nil stated net of an impairment of approximately HK\$10,352,000 which was made in prior years as the Company was not able to obtain adequate information in assessing the financial ability of the debtors. Evidence provided to the then auditor was considered insufficient. The then auditor was not able to satisfy themselves as to whether the impairment against the loan and interest receivables, and in consequence the carrying amount of the loan and interest receivables were fairly stated.

Impairment had been made by the Company for prudence's sake and more evidence was provided subsequently. The then auditor satisfied with the evidence and explanation and no such qualification was issued in the 2006 Annual Results.

4. *Fundamental uncertainties as to going concern basis*

The Group suffered continuing losses and had consolidated current liabilities exceeded consolidated current assets in the financial statements for the year ended 31 December 2003-2007, 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, 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 then auditor considered 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 then auditor had disclaimed its opinion.

The Company had subsequently negotiated with its creditors for settlement, repayment and rescheduled of payment of its outstanding indebtedness. In addition, the Company had entered into the Property Acquisition, the Tree Acquisition, the MOU in relation to the property development project in Cambodia and the placing agreements of the Convertible Bonds and the Second Convertible Bonds in an aggregate amount of HK\$125 million. Upon completion of the transactions, the Group will have sufficient level of operation and positive cash flow to continue as going concern. Details of the transactions are referred in the Announcement.

## **FINANCIAL REPORTING SYSTEM AND INTERNAL CONTROL PROCEDURES**

The Company engaged Howarth on 25 April 2007 to conduct an independent high-level review of the internal control system of the Company. As the Company is rather inactive with limited operation, it is more meaningful and cost effective to conduct a review on the internal control policies and procedures. The internal control review covered principally corporate governance, financial reporting and disclosure, monitoring, operational procedures and compliance with the Listing Rules. Pursuant to such engagement, Howarth, amongst others, has

1. scrutinized the relating internal control policies and procedures of the Company;
2. interviewed and discussed with management of the Company;
3. identified internal control weakness of the Company; and
4. confirmed findings, reported any control deficiencies during the review and provided recommendations in order to remediate these control deficiencies.

According to the high-level internal control review report issued by Howarth, no significant internal control weaknesses are identified based on literature review of the internal control policies and procedures. Howarth recommended the Company to have periodic review on the policies and procedures to ensure that internal controls are adequate to monitor business development of the Group. The management has accepted the report and will take the recommendation in action accordingly.

With reference to the resumption conditions stated in the Announcement, the Company had undertaken to engage an independent professional firm to conduct a full scope review of the adequacy and effectiveness of the internal control procedures and financial reporting system of the enlarged Group within six months after the resumption of trading.

## **SUSPENSION OF TRADING**

Trading in the Shares has been suspended at the request of the Company since 9:30 a.m. on 17 June 2004 and will continue to be suspended until further notice.

## **DEFINITIONS**

“Announcement”	announcement of the Company dated 10 July 2008 regarding the progress of resumption of trading in the Shares
“Howarth”	Howarth Risk Advisory Services Limited, an independent professional firm
“Kong Sheng”	Kong Sheng Property Development Limited, the then subsidiary of the Company

“Pioneer Heritage”	Pioneer Heritage Sdn. Bhd., the then subsidiary of the Company
“2003 Annual Results”	annual results of the Company for the year ended 31 December 2003
“2004 Annual Results”	annual results of the Company for the year ended 31 December 2004
“2004 Interim Results”	interim results of the Company for the six months ended 30 June 2004
“2005 Annual Results”	annual results of the Company for the year ended 31 December 2005
“2005 Interim Results”	interim results of the Company for the six months ended 30 June 2005
“2006 Annual Results”	annual results of the Company for the year ended 31 December 2006
“2006 Interim Results”	interim results of the Company for the six months ended 30 June 2006
“2007 Annual Results”	annual results of the Company for the year ended 31 December 2007
“2007 Interim Results”	interim results of the Company for the six months ended 30 June 2007

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

Hong Kong, 11 December 2008

*As at the date of this announcement, the board of directors of Kong Sun Holdings Limited comprise three executive Directors, Mr. Tse On Kin, Mr. Chan Chi Yuen and, Mr. Yu Pak Yan, Peter; and three independent non-executive Directors, Ms. Lo Miu Sheung, Betty, Mr. Lau Man Tak and Dr. Wong Yun Kuen.*