

RSM Nelson Wheeler

羅申美會計師行

Certified Public Accountants

To the SHAREHOLDERS of

KONG SUN HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 16 to 83 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the 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.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants, except that the scope of our work was limited as explained below.

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

We planned our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. However, the evidence available to us was limited as follows:

1. Scope limitation – Consideration receivables

As detailed in Notes 25(b) and 25(c) to the financial statements, the Group has consideration receivables of approximately HK\$78,679,000 due from Beijing Tianheng Property Development Joint Stock Company Limited (“Beijing Tianheng”), representing the outstanding consideration receivables in aggregate upon disposal of 80.1% interest of the registered capital of Kong Sheng Property Development Limited (“Kong Sheng”), a then subsidiary of the Company and upon disposal of 10% interest of the registered capital of Kong Sheng (the “consideration receivables”). In January 2005, Beijing Tianheng defaulted on the second payment of the consideration receivables of approximately HK\$18,691,000. The directors of the Company remain confident that the entire amount of approximately HK\$78,679,000 can be recovered in full. However, we were unable to obtain the financial information of Beijing Tianheng to satisfy ourselves as to the ability of Beijing Tianheng to

1. Scope limitation – Consideration receivables (Continued)

settle the consideration receivables. There were no other satisfactory audit procedures that we could adopt to satisfy ourselves as to the recoverability of the consideration receivables of approximately HK\$78,679,000. Any adjustment to the consideration receivables would have a consequential effect on the net assets of the Group and the Company as at 31 December 2004, the net loss of the Group for the year then ended and the related disclosures in the financial statements.

2. Scope limitation – Fundamental uncertainty relating to going concern

In forming our opinion, we have considered the adequacy of the disclosures made in Note 2 to the financial statements which explain the current liquidity difficulties of the Group and the circumstances giving rise to fundamental uncertainty relating to the Group's ability to continue as a going concern. The directors of the Company are taking active steps to improve the financial and liquidity position of the Group. The financial statements have been prepared on a going concern basis, the validity of which depends upon the successful outcome of the procurement of new equity or financing; the recovery of the consideration receivables; the continuous financial support of the Company's substantial shareholders, Kong Sun Enterprise Sdn. Bhd. and Kong Fa Holding Limited; the rescheduling of the repayment terms of certain of the Group's existing indebtedness; and the attainment of profitable business opportunities to meet the Group's future working capital and financial requirements. The financial statements do not include any adjustments that may be necessary should the implementation of such measures be unsuccessful. However, because of the complexity of the Group's financial position and the inconclusive state of the Group's discussions and negotiations with its bankers and creditors, the directors have not been able to provide us with a detailed plan as to how the Group might remain a going concern thereby supporting the basis on which they have prepared the financial statements. Although we are aware that a significant amount of effort has been put into this aspect of the Group's affairs, we have been unable to determine that the directors' assessment is correct. Accordingly, we disclaim our opinion on account of this scope limitation.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Disclaimer of opinion

Because of the significance of the possible effect of the limitations in evidence available to us referred to in the basis of opinion section of this report, we are unable to form an opinion 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 2004 and of the Group's results and cash flows for the year then ended and as to whether the financial statements have been properly prepared in accordance with the Companies Ordinance.

In respect alone of the limitations on our work as set out in the basis of opinion section of this report, we have not obtained all the information and explanations that we considered necessary for the purpose of our audit.

RSM Nelson Wheeler
Certified Public Accountants
Hong Kong

16 June 2006