KongSun 江山

江山控股有限公司
Kong Sun Holdings Limited

(Stock Code: 295)

ANNUAL REPORT 2005

Contents

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
REGISTERED OFFICE	Unit A, 1st Floor Lippo Leighton Tower 103 Leighton Road, Causeway Bay Hong Kong
AUDITORS	CCIF CPA Limited 20th Floor, Sunning Plaza 10 Hysan Avenue, Causeway Bay Hong Kong
SOLICITORS	Michael Li & Co. Henry Fok & Co.
PRINCIPAL BANKERS	DBS Bank (Hong Kong) Limited The Public 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
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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, 2005.

The Company and the Group had gone through a hard time during the year. Intense cost reduction programs have been carried on and addition source of finance had been kept seeking during the year. Loss for the year had broadened this year due the lack of constant income to the Group which made the financial position of the Group precarious. Seeking new investment opportunities for a secure and steady income to the Group as well as the restructuring of existing indebtedness will be the primary target of the Group for the coming year.

The Group's results for the year under review generally reflected the financial difficulties of the Group which had been facing. The active realization of assets of the Group without replacing it with other secure and steady income-generating assets had led to further decline in turnover of the Group to HK$221,000, a dramatic 98% decrease as compared with that of last year. Loss for the year had broadened to HK$99,741,000 as compared to HK$30,163,000 recorded in last year. Loss per share had also broadened to HK3.89 cents as compared to HK1.17 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 and the Group will actively seek for investment opportunities with potential 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, 5 July 2007

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 had experienced serious financial difficulties for the year ended 31 December 2005 and the results under review generally reflected the situation. The Group recorded a consolidated turnover of HK$221,000 a dramatic 98% decrease as compared with that of last year. Loss attributable to shareholders had been broadened to HK$99,735,000 as compared to HK$29,962,000 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 recorded a turnover of HK$221,000 accounted for approximately 26% of total revenue for the year. The lingering development progress in Malaysia and the lack of steady income-generating assets of the Group had made turnover of the Group hover at low level.

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 2005, the total shareholders fund of the Group amounted to HK$80 million, compared to HK$180 million as at 31 December 2004. The debt ratio (based on the sum of current liability and long-term liability over the equity) of the Group as at 31 December 2005 was 0.72 while the ratio as at 31 December 2004 was 0.35.

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.

Management Discussion and Analysis

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. 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 45, 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 and executive director of New Times Group Holdings Limited, an executive director of Mexan Limited, a non-executive director of China Science Conservational Power Limited and vice-president of Guo Hong Communication Digital Group (PRC). Mr. Tse was also the former chairman of China Science Conservational Power Limited, an executive director of China National Resources Development Holdings Limited and the vice-chairman and chief executive officer of Great Wall Cybertech Limited.

MR. KONG LI SZU

Executive Director

aged 36, 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 an independent non-executive director of China Science Conversational Power Limited, Hong Kong Health Check and Laboratory Holdings Company Limited, Tak Shun Technology Group Limited and Premium Land Limited. He was also a non-executive director of Golden Resorts Group Limited and New Times Group Holdings Limited.

MR. CHAN CHIU HUNG, ALEX

Independent Non-executive Director

aged 40, 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 and the Hong Kong Institute of Certified Public Accountants, an associate member of the The Institute of Chartered Accountants in England and Wales and an associate member of 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 executive director of Climax International Company Limited and an independent non-executive director of Golden Resorts Group Limited.

DR. WONG YUN KUEN

Independent Non-executive Director

aged 49, received his Ph.D. degree from Harvard University, and was "Distinguished Visiting Scholar" in Finance at the Wharton School of the University of Pennsylvania and a consultant at AIG Finance Products Corp. of USA. Dr. Wong has extensive experience in corporate finance, investment and derivative products. 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, Ultra Group Holdings Limited, Poly Investments Holdings Limited, Bauhaus International (Holdings) Limited, Golden Resorts Group Limited, Tak Shun Technology Group Limited and Climax International Company Limited. Dr. Wong was a former independent non-executive director of Haywood Investment 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 2005.

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 14 to the financial statements.

Results and Dividends

The Group's loss for the year ended 31 December 2005 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 28 to 147.

The directors do not recommend the payment of any dividend in respect of the year ended 31 December 2005.

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 32 and other details of the reserves of the Company and the Group are set out in Note 32 to the financial statements.

Distributable Reserves

At 31 December 2005, 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 148. This summary does not form part of the audited financial statements.

Directors' Report

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Company and the Group during the year are set out in Note 16 to the financial statements respectively.

Share Capital

Details of movements in the Company's share capital during the year are set out in Note 32 to the financial statements.

Share Options

Information about the share options of the Company during the year is set out in Note 33 to the financial statements.

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	– appointed 20 June 2006 and resigned on 20 April 2007
Chan Chi Yuen	– appointed on 15 February 2007

Independent non-executive directors

Ku Suen Fai	– resigned on 23 March 2006
Sin Wai Chiu, Joseph	– appointed on 16 May 2005 and resigned on 28 March 2006
Ip Man Tin, David	– appointed on 16 May 2005 and resigned on 17 October 2006
Chan Shing Hoi, Alfred	– appointed on 10 January 2005 and resigned on 15 May 2005
Fai Cheong Hau	– deceased on 3 April 2005
Chan Chiu Hung, Alex	– appointed on 9 June 2006
Lo Tat Shing	– appointed on 9 June 2006 and 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, Alex will retire and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

Directors' Report

Biographical details of directors

Biographical details of the directors of the Company are set out on page 6 to 7.

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 40 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' and Chief executives' Interests in Shares

At 31 December 2005, 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

Name of director	*Notes*	Number of shares held and nature of interest Personal	 Corporate	Total	Percentage of issued 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 2005, 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' 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 2005, 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

Directors' Report

Save as disclosed above, at 31 December 2005, 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 40 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.

Convertible Securities, Options, Warrants or Similar Rights

The Company had no outstanding convertible securities, options, warrants or other similar rights at 31 December 2005. 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 2005, the Group had total assets of HK$137,923,000 which were financed by current liabilities of HK$25,446,000, finance lease payables of HK$19,000, short term bank loans and other borrowings of HK$32,204,000, minority interests of HK$14,000 and shareholders' equity of HK$80,240,000. The Group's working capital ratio at the balance sheet date was approximately 0.77:1.

The Group has been unable to meet certain scheduled repayments due to its bankers and creditors during the year ended 31 December 2005 and up to the date of this annual report. As a consequence, there are various lawsuits against the Group from a number of bankers for the repayment of the amounts due by the Group. Hence, bank and other borrowings of approximately HK$26,383,000 and the interest thereon of approximately HK$5,869,000 are immediately due and payable. Further details of the breach of the loan agreements are set out in Note 29 to the financial statements.

Retirement Benefits Schemes

Details of the retirement benefits schemes of the Group are set out in Notes 3(n)(i) and (ii) to the financial statements.

Employees and Employment Policies

At 31 December 2005, 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 41 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

Auditors

Ernst and Young was the auditors of the Group for the year ended 31 December 2002. RSM Nelson Wheeler had replaced Ernst and Young as the auditors of the Group for the year ended 31 December 2003 and 31 December 2004 and had resigned as auditors of the Group on 17 July 2006. CCIF CPA Limited had been appointed as auditors of the Group to fill the casual vacancy. A resolution for the reappointment of CCIF 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, 5 July 2007

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 2005.

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.2.1, A.4.1 and B.1 which are 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.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.

Under the code provision B.1, remuneration committee has to be set up by the Company. Despite no remuneration committee was formed during the year ended 31 December 2005, it has been established on 9 June 2006 with all the independent non-executive directors being members.

Corporate Governance Report

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.

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.

Corporate Governance Report

On 3 April 2005, Mr. Fai Cheong Hau, an independent non-executive Director and a member of the audit committee of the Company, has passed away and Mr. Chan Shing Hoi, Alfred had tendered his resignation as independent non-executive director and member of the audit committee of the Company on 15 May 2005. Mr. Ku Suen Fai, Mr. Sin Wai Chiu, Joseph and Mr. Ip Man Tin, David had also 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, the Company had used its best efforts to identify other suitable persons to be independent non-executive directors and members of the audit committee of the Board. On 9 June 2006, 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 15 February 2007 and 20 April 2007, Ms. Lo Miu Sheung, Betty and Mr. Wong Yun Kuen were also appointed as independent non-executive directors as well as members of the audit committee of the Company respectively and 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.

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 4 times during the year ended 31 December 2005.

Corporate Governance Report

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.

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 2005 is set out in the table below:

	Meetings attended/held		
Name of Directors	**Board of Directors**	**Audit Committee**	**AGM**
Executive directors			
Mr. Kong Li Szu	4/4	N/A	1/1
Mr. Kong Li Jer (Resigned on 15 February 2007)	3/4	N/A	0/1
Mr. Kong Lok King (Resigned on 15 February 2007)	1/4	N/A	0/1
Independent non-executive directors			
Ms. Ku Suen Fai (Resigned on 23 March 2006)	0/4	1/2	0/1
Mr. Sin Wai Chiu, Joseph (Appointed on 16 May 2005 and resigned on 28 March 2006)	0/4	1/2	0/1
Mr. Ip Man Tin, David (Appointed on 16 May 2005 and resigned on 17 October 2006)	0/4	1/2	1/1
Mr. Chan Shing Hoi, Alfred (Appointed on 10 January 2005 and resigned on 15 May 2005)	0/4	1/2	0/1

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.

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.

Corporate Governance Report

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 2005 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 2005.

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 2005, 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$7,060,000. Further details of the related loan facility are set out in Note 29(b)(i) to the financial statements.

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

(i) At 31 December 2005, 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 49.2% of the Group's net assets at 31 December 2005. 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 2005, 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 has been fully provided for the year ended 31 December 2005.

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 2005 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 23 to 27.

Corporate Governance Report

Auditors' Remuneration

The remuneration paid to the external auditors of the Company in respect of audit services for the year ended 31 December 2005 amounted to HK$453,000.

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.

The Board is currently engaging an independent advisory firm to conduct a review of the internal control system of the Group.

Independent Auditor's Report

CCIF

CCIF CPA LIMITED

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

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

REPORT ON THE FINANCIAL STATEMENTS

We were engaged to audit the consolidated financial statements of Kong Sun Holdings Limited (the "Company") set out on pages 28 to 147, which comprise the consolidated and company balance sheets as at 31 December 2005, and 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 of the Company 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. This report is made 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 for the limitation in the scope of our work as explained below, 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. However, because of the matters described in the scope limitation paragraphs of the basis for disclaimer of opinion section, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion.

Independent Auditor'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 16 June 2006, the auditors disclaimed their opinion on the Group's financial statements for the year ended 31 December 2004 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, as detailed on notes 23(b) and 23(c) to the financial statements, the recoverability of an aggregate of outstanding consideration receivables of approximately HK$78,679,000 due from Beijing Tianheng Property Development Joint Stock Company Limited ("Beijing Tianheng") in relation to the Group's disposal of 80.1% and 10% interest in the registered capital of Kong Sheng Property Development Limited, were fairly stated and free from material misstatement. Although in January 2005, Beijing Tianheng defaulted the second payment of the consideration receivables of approximately HK$18,691,000, the directors of the Company remained confident that an aggregate of outstanding consideration receivables of approximately HK$78,679,000 could be recovered in full. The auditors were unable to obtain the financial information of Beijing Tianheng to satisfy themselves as to the ability of Beijing Tianheng to settle the consideration receivables. Any adjustments that might have found to be necessary in respect thereof had we 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 2004, 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, we were not able to express our opinion as to whether the balances brought forward as at 1 January 2005 and the comparative figures were fairly stated in the financial statements.

(2) *Scope limitation – Loan and interest receivables*

As detailed in note 22 to the financial statements, as at 31 December 2005, the Group 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. In the opinion of the directors of the Company, the directors of the Company were not able to obtain adequate information in assessing the financial ability of the debtors and thus determined that an impairment of approximately HK$65,820,000 and approximately HK$10,352,000 against the outstanding loan receivables and interest receivables as at 31 December 2005 respectively were considered necessary. Due to the lack of sufficient and appropriate evidence, we were not able to satisfy ourselves as to whether the impairment determined by the directors of the Company against the loan and interest receivables, and in consequence the carrying amount of the loan and interest receivables as at 31 December 2005 were fairly stated.

Basis for disclaimer of opinion *(Continued)*

(3) Scope limitation – Consideration receivables

As detailed in note 23 to the financial statements, as at 31 December 2005, the Group had consideration receivables of approximately HK$2,771,000 stated net of an impairment of approximately HK$83,517,000, of which HK$75,908,000 was charged to the consolidated income statement for the year ended 31 December 2005 and HK$7,609,000 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 respectively, and thus determined that an impairment of approximately HK$83,517,000 against the outstanding consideration receivables as at 31 December 2005 was considered necessary. Due to the lack of sufficient and appropriate evidence, we were not able to satisfy ourselves 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 2005 were fairly stated.

(4) Material uncertainties relating to the going concern basis

In forming our opinion, we have considered the adequacy of the disclosures made in note 2(a) to the financial statements concerning the adoption of the going concern basis on which the financial statements have been prepared. As explained in note 2(a) to the financial statements which indicated that the Group incurred consolidated loss attributable to equity holders of the Company of approximately HK$99,735,000 during the year ended 31 December 2005 and as of that date the Group reported net current liabilities of approximately HK$13,055,000, 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. We 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, we have disclaimed our 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 2005, 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, we 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.

Independent Auditor's Report

Basis for disclaimer of opinion *(Continued)*

We were not able to carry out alternative audit procedures to satisfy ourselves as to the matters set out in paragraphs (1) to (3) above.

Any adjustments that might have found to be necessary in respect of the matters set out in paragraphs (1) to (3) would have a consequential effect on the financial position of the Company or the Group as at 31 December 2005, the loss and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

Qualification arising from limitation of audit scope

(A) Scope limitation – Property development

As detailed in note 24 to the financial statements, as at 31 December 2005, the Group had property development with a carrying value of nil stated net 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. With reference to the estimated selling price less estimated costs of completion and costs to be incurred in selling the property, the directors of the Company were in the opinion that the property development would be of nil value to the Group and made a write down of approximately HK$2,080,000 during the year ended 31 December 2005. Due to the lack of sufficient and appropriate evidence, we were not able to assess the reasonableness of the estimation and we were not able to satisfy ourselves as to whether the write down determined by the directors of the Company against the property development, and in consequence the carrying value of the property development as at 31 December 2005 were fairly stated.

(B) Scope limitation – General reserve

As detailed in note 32(d)(ii) to the financial statements, as at 31 December 2005, the Group had a general reserve with a carrying amount of approximately HK$18,000,000. In the opinion of the directors of the Company, the details of the nature and purposes of the general reserve are not readily available. Due to the lack of sufficient and appropriate evidence, we were not able to satisfy ourselves as to whether the carrying amount of the general reserve as at 31 December 2005 was fairly stated. In addition, the disclosures as stipulated under paragraph 76(b) of Hong Kong Accounting Standard 1 *Presentation of Financial Statements* issued by the Hong Kong Institute of Certified Public Accountants in relation to the details of the nature and purposes of the general reserve of approximately HK$18,000,000 have not been made in the financial statements.

We were not able to carry out alternative audit procedures to satisfy ourselves as to the matters set out in paragraphs (A) to (B) above.

Any adjustments that might have found to be necessary in respect of the matters set out in paragraphs (A) to (B) would have a consequential effect on the financial position of the Company or the Group as at 31 December 2005, the loss and cash flows of the Group for the year then ended and the related disclosures in the financial statements.

Independent Auditor's Report

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 us in each of the areas as set out in paragraphs (1) to (3) in the basis for disclaimer of opinion section and (ii) the material uncertainties relating to the going concern basis, we do not express an opinion on the consolidated financial statements as to whether they give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 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 our work relating to matters described in the scope limitation paragraphs (1) to (3) and (A) to (B) above:

- we have not obtained all the information and explanations that we considered necessary for the purpose of our audit; and

- we were unable to determine whether proper books of account had been kept.

CCIF CPA Limited
Certified Public Accountants
Hong Kong, 5 July 2007

Betty P.C. Tse
Practising Certificate Number P03024

Consolidated Income Statement

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

	Note	2005 HK$'000	2004 (restated) HK$'000
Continuing operations			
Turnover	5	**221**	12,269
Other revenue	6	**614**	916
Other net income	6	**–**	741
Cost of properties sold		**(102)**	(8,268)
Valuation losses on investment property	15	**–**	(982)
Staff costs	7(b)	**(1,143)**	(2,786)
Depreciation and amortisation		**(40)**	(295)
Other operating expenses		**(85,020)**	(23,775)
Write down of property development		**(2,080)**	–
Loss from operations		**(87,550)**	(22,180)
Finance costs	7(a)	**(4,360)**	(4,460)
Share of profits less losses of associates		**(7,831)**	(3,896)
Loss before taxation	7	**(99,741)**	(30,536)
Taxation	8(a)	**–**	–
Loss for the year from continuing operations		**(99,741)**	(30,536)
Discontinued operations			
Profit for the year from discontinued operations	7, 9	**–**	373
Loss for the year		**(99,741)**	(30,163)
Attributable to:			
Equity holders of the Company	12, 32(a)	**(99,735)**	(29,962)
Minority interests	32(a)	**(6)**	(201)
Loss for the year	32(a)	**(99,741)**	(30,163)
(Loss)/earnings per share – basic	13		
From continuing and discontinued operations		**HK(3.89) cents**	HK(1.17) cents
From continuing operations		**HK(3.89) cents**	HK(1.18) cents
From discontinued operations		**N/A**	HK0.01 cents

The notes on pages 35 to 147 form part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2005
(Expressed in Hong Kong Dollars)

	Note	2005		2004 (restated)	
		HK$'000		HK$'000	
Non-current assets					
Fixed assets					
– Investment properties	15		–		15,666
– Property, plant and equipment	16		–		155
			–		15,821
Land lease prepayments	17		–		244
Goodwill	19		–		–
Interest in associates	20		88,572		96,403
Available-for-sale securities	21		6,537		6,537
Consideration receivables	23		–		59,988
			95,109		178,993
Current assets					
Property development	24	–		2,188	
Land lease prepayments	17	–		11	
Trade and other receivables	25	414		2,580	
Loan and interest receivables	22	39,510		39,510	
Consideration receivables	23	2,771		18,691	
Pledged deposits	26	37		37	
Cash and cash equivalents	27	82		862	
		42,814		63,879	
Current liabilities					
Trade and other payables	28	25,398		19,763	
Bank and other borrowings	29	30,404		43,053	
Obligations under finance leases	30	19		6	
Tax payable	31(a)	48		48	
		55,869		62,870	

Consolidated Balance Sheet

As at 31 December 2005

(Expressed in Hong Kong Dollars)

	Note	**2005**	2004
			(restated)
		HK$'000	*HK$'000*
Net current (liabilities)/ assets		**(13,055)**	1,009
Total assets less current liabilities		**82,054**	180,002
Non-current liabilities			
Bank and other borrowings	*29*	**1,800**	–
Obligations under finance leases	*30*	**–**	15
		1,800	15
NET ASSETS		**80,254**	179,987
CAPITAL AND RESERVES	*32(a)*		
Share capital		**256,116**	256,116
Reserves		**(175,876)**	(76,149)
Total equity attributable to equity holders of the Company		**80,240**	179,967
Minority interests		**14**	20
TOTAL EQUITY		**80,254**	179,987

Approved and authorised for issue by the board of directors on 5 July 2007

Kong Li Szu
Director

Chan Chi Yuen
Director

The notes on pages 35 to 147 form part of these financial statements.

Balance Sheet

As at 31 December 2005
(Expressed in Hong Kong Dollars)

	Note	2005		2004	
		HK$'000	**HK$'000**	HK$'000	HK$'000
Non-current assets					
Property, plant and equipment	16		**–**		–
Investments in subsidiaries	18		**84,639**		215,519
			84,639		215,519
Current assets					
Trade and other receivables	25	**83**		131	
Cash and cash equivalents	27	**3**		3	
		86		134	
Current liabilities					
Trade and other payables	28	**17,281**		7,844	
Bank and other borrowings	29	**26,625**		31,537	
		43,906		39,381	
Net current liabilities			**(43,820)**		(39,247)
NET ASSETS			**40,819**		176,272
CAPITAL AND RESERVES	32(b)				
Share capital			**256,116**		256,116
Reserves			**(215,297)**		(79,844)
TOTAL EQUITY			**40,819**		176,272

Approved and authorised for issue by the board of directors on 5 July 2007

Kong Li Szu
Director

Chan Chi Yuen
Director

The notes on pages 35 to 147 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2005

(Expressed in Hong Kong Dollars)

	Attributable to equity holders of the Company									
	Share capital	Share premium	Capital redemption reserve	General reserve	Special reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004, as previously reported	256,116	329,049	20	18,000	9,329	341	(403,309)	209,546	–	209,546
Effect of retrospective adjustments upon changes in accounting policies *(note 4(a)(iv))*	–	–	–	–	–	–	–	–	221	221
At 1 January 2004, as restated	256,116	329,049	20	18,000	9,329	341	(403,309)	209,546	221	209,767
Loss for the year	–	–	–	–	–	–	(29,962)	(29,962)	(201)	(30,163)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	–	383	–	383	–	383
At 31 December 2004, as restated	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	20	179,987
At 1 January 2005, as previously reported	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	–	179,967
Effect of retrospective adjustments upon changes in accounting policies *(note 4(a)(iv))*	–	–	–	–	–	–	–	–	20	20
At 1 January 2005, as restated	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	20	179,987
Loss for the year	–	–	–	–	–	–	(99,735)	(99,735)	(6)	(99,741)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	–	8	–	8	–	8
At 31 December 2005	256,116	329,049	20	18,000	9,329	732	(533,006)	80,240	14	80,254

Note:

In 2003, the investment property revaluation reserve was fully utilised and the loss resulting from the changes in the fair value of the investment properties in 2003 and 2004 was recognised directly in the income statement for the years ended 31 December 2003 and 2004 respectively. As a result, the investment property revaluation reserve was carried at nil as at 31 December 2003 and 2004. Accordingly, comparative information has not been restated upon adoption of HKAS 40.

The notes on pages 35 to 147 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

	Note	2005 HK$'000	2004 (restated) HK$'000
Operating activities			
Loss before taxation		**(99,741)**	(30,163)
Adjustments for:			
Depreciation		**33**	280
Amortisation of land lease prepayments		**7**	15
Gain on disposal of investment property		**–**	(435)
Valuation losses on investment property		**–**	982
Loss/(gain) on disposal of subsidiaries, net		**8**	(3)
Gain on strike off of subsidiaries		**–**	(30)
Gain on disposal of a short term investment		**–**	(708)
Finance costs		**4,360**	4,460
Share of profits less losses of associates		**7,831**	3,896
Bank interest income		**(9)**	(19)
Loss on disposal of property, plant and equipment		**–**	21
Impairment loss of property, plant and equipment		**–**	131
Impairment loss of land lease prepayments		**–**	30
Impairment loss of consideration receivables		**75,908**	7,609
Write down of property development		**2,080**	–
Impairment loss of trade receivables		**645**	–
Impairment loss of other receivables		**1,344**	671
Impairment loss of loan and interest receivables		**–**	5,358
Write off of other receivables		**–**	71
Operating loss before changes in working capital		**(7,534)**	(7,834)
Decrease in property development		**108**	90
Decrease/(increase) in trade and other receivables		**296**	(792)
Increase in loan and interest receivables		**–**	(782)
Increase in trade and other payables		**3,027**	10,385
Cash (used in)/generated from operations		**(4,103)**	1,067
Tax paid			
Hong Kong profits tax refund/(paid)		**62**	(13)
Net cash (used in)/generated from operating activities		**(4,041)**	1,054

Consolidated Cash Flow Statement

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

	Note	2005 HK$'000	2004 (restated) HK$'000
Investing activities			
Payment for the purchase of property, plant and equipment		**–**	(7)
Proceeds from sale of property, plant and equipment		**370**	–
Proceeds from sale of investment properties		**15,488**	2,735
Net cash outflow upon disposal of subsidiaries	34(b)	**–**	(4)
Advances to associates		**(192)**	(123)
Proceeds from sale of short term investment		**–**	3,563
Decrease in pledged deposits		**–**	(37)
Bank interest received		**9**	19
Net cash generated from investing activities		**15,675**	6,146
Financing activities			
Proceeds from new bank and other borrowings		**4,771**	1,050
Repayment of bank and other borrowings		**(12,080)**	(5,110)
Capital element of finance lease rental payments		**(2)**	(204)
Interest element of finance lease rentals paid		**–**	(26)
Other borrowing costs paid		**(1,563)**	(2,291)
Net cash used in financing activities		**(8,874)**	(6,581)
Net increase in cash and cash equivalents		**2,760**	619
Cash and cash equivalents at 1 January		**(2,678)**	(3,680)
Effect of foreign exchange rate changes		**–**	383
Cash and cash equivalents at 31 December	27	**82**	(2,678)

The notes on pages 35 to 147 form part of these financial statements.

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

1. General Information

Kong Sun Holdings Limited (the "Company") is a limited company incorporated in Hong Kong and its shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The trading of the shares of the Company in the Stock Exchange was suspended with effect from 9:30 a.m. on 17 June 2004, at the request of the Company. The address of the registered office of the Company is disclosed in the "Corporate Information" section to the annual report.

The consolidated financial statement of the Company as at and for the year ended 31 December 2005 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates. The Company is an investment holding company. Its subsidiaries were engaged in the following businesses:

- property investment and development; and
- provision of financial services.

The associates of the Group were principally engaged in the business of property development.

2. Basis of Preparation

(a) Material uncertainties relating to the going concern basis

The Group sustained consolidated loss attributable to equity holders of the Company of approximately HK$99,735,000 for the year ended 31 December 2005. At 31 December 2005, the Group had consolidated net current liabilities of approximately HK$13,055,000.

The Group experienced financial difficulties and has defaulted the repayments of certain bank and other borrowings. As at 31 December 2005, the bank and other borrowings of approximately HK$26,383,000 and the interest thereon of approximately HK$5,869,000 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.

2. Basis of Preparation *(Continued)*

(a) Material uncertainties relating to the going concern basis *(Continued)*

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, the Group will have sufficient cash resources to satisfy its future working capital and other financial requirements. Accordingly, the directors are satisfied that it is appropriate to prepare the financial statements on a going concern basis, notwithstanding the Group's financial and liquidity position as at 31 December 2005.

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. Basis of Preparation *(Continued)*

(b) Statement of compliance

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

The HKICPA has issued a number of new and revised HKFRSs that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Note 4 provides information on the changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(c) Basis of measurement

The measurement basis used in the preparation of the financial statements is the historical cost basis except where stated otherwise in the accounting policies set out below.

Non-current assets and disposal groups held for sale are stated at the lower of carrying and fair value less costs to sell.

(d) Functional and presentation currency

These consolidated financial statements are presented in Hong Kong dollars, which is the Group's functional currency. All financial information presented in Hong Kong dollars has been rounded to the nearest thousand.

(e) Use of estimate and judgements

The preparation of financial statements in conformity with HKFRSs requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

2. Basis of Preparation *(Continued)*

(e) Use of estimate and judgements *(Continued)*

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material judgements and estimates with a significant risk of material adjustment in the next year are discussed in note 44.

3. Significant Accounting Policies

(a) Subsidiaries and minority interests

A subsidiary, in accordance with the Hong Kong Companies Ordinance, is a company in which the Group, directly or indirectly, holds more than half of the issued share capital or controls more than half the voting power or controls the composition of the board of directors. Subsidiaries are considered to be controlled if the Company has the power, directly or indirectly, to govern the financial and operating policies, so as to obtain benefits from their activities.

An investment in a controlled subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interest and the equity holders of the Company.

3. Significant Accounting Policies *(Continued)*

(a) Subsidiaries and minority interests *(Continued)*

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 3(h)), unless the investment is classified as held for resale (or included in a disposal group that is classified as held for sale) (see note 3(t)).

(b) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the associate's net assets, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 3(t)). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in the associate recognised for the year (see notes 3(c) and (h)).

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associate are eliminated to the extent of the Group's interest in the associate, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in income statement.

3. *Significant Accounting Policies (Continued)*

(c) Goodwill

Goodwill represents the excess of the cost of a business combination or an investment in an associate over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3(h)). In respect of associate, the carrying amount of goodwill is included in the carrying amount of the interest in the associate.

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate is recognised immediately in income statement.

On disposal of a cash generating unit, an associate during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

(d) Other investments in debt and equity securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are as follows:

Investments in debt and equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification.

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in income statement as incurred. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised in income statement.

Dated debt securities that the Group and/or the Company have the positive ability and intention to hold to maturity are classified as held-to-maturity securities. Held-to-maturity securities are stated in the balance sheet at amortised cost less impairment losses (see note 3(h)).

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 3(h)).

3. Significant Accounting Policies *(Continued)*

(d) Other investments in debt and equity securities *(Continued)*

Investments in securities which do not fall into any of the above categories are classified as available-for-sale securities. At each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses in respect of monetary items such as debt securities which are recognised directly in income statement. Where these investments are interest-bearing, interest calculated using the effective interest method is recognised in income statement. When these investments are derecognised or impaired (see note 3(h)), the cumulative gain or loss previously recognised directly in equity is recognised in income statement.

Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or they expire.

(e) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 3(g)) to earn rental income and/or for capital appreciation. These include land held for a currently undermined future use.

Investment properties are stated in the balance sheet at fair value. Any gain or loss arising from a change in as fair value or from the retirement or disposal of an investment property is recognised in income statement. Rental income from investment properties is accounted for as described in note 3(q)(i).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 3(g)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 3(g).

(f) Other property, plant and equipment

The following items of property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 3(h)):

– buildings held for own use which are situated on leasehold land, where the fair value of the building could be measured separately from the fair value of the leasehold land at the inception of the lease (see note 3(g)); and

– other items of plant and equipment.

3. Significant Accounting Policies *(Continued)*

(f) Other property, plant and equipment *(Continued)*

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in income statement on the date of retirement or disposal.

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

– Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 25 years.

–	Leasehold improvements	over the shorter of the unexpired term of lease and their estimated useful lives
–	Office furniture and equipment	3 – 6 years
–	Motor vehicles	4 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

(g) Leased assets

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases, with the following exceptions:

– property held under operating leases that would otherwise meet the definition of an investment property is classified as an investment property on a property-by-property basis, and if classified as investment property, is accounted for as if held under a finance lease (see note 3(e)); and

– land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

3. Significant Accounting Policies *(Continued)*

(g) Leased assets *(Continued)*

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, of lower, the present value of the minimum lease payments, of such assets are included in fixed assets and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 3(f). Impairment losses are accounted for in accordance with the accounting policy as set out in note 3(h). Finance charges implicit in the lease payments are charged to income statement over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to income statement in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to income statement in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 3(e)) or is held for development for sale (see note 3(i)).

3. *Significant Accounting Policies* *(Continued)*

(h) Impairment of assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, any impairment loss is determined and recognised as follows:

– For unquoted equity securities and current receivables that are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities are not reversed.

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discontinuing is material.

  If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through income statement. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

– For available-for-sale securities, the cumulative loss that had been recognised directly in equity is removed from equity and is recognised in income statement. The amount of the cumulative loss that is recognised in income statement is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in income statement.

3. *Significant Accounting Policies (Continued)*

(h) Impairment of assets *(Continued)*

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

Impairment losses recognised in income statement in respect of available-for-sale equity securities are not reversed through income statement. Any subsequent increase in the fair value of such assets is recognised directly in equity.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in income statement.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– land lease prepayments;

– investments in subsidiaries and associates (except for those classified as held for sale (or included in a disposal group that is classified as held for sale)); and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

3. *Significant Accounting Policies* *(Continued)*

(h) Impairment of assets *(Continued)*

(ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflow largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to income statement in the year in which the reversals are recognised.

3. *Significant Accounting Policies (Continued)*

(i) Property development

Property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– Property under development for sale

The cost of properties under development for sale comprises specially identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 3(s)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– Completed properties for sale

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price as determined by reference to management estimates based on prevailing market conditions, less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(j) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (see note 3(h)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts (see note 3(h)).

3. *Significant Accounting Policies* *(Continued)*

(k) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in income statement over the period of the borrowings, together with any interest and fees payables, using the effective interest method.

(l) Trade and other payables

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement.

(n) Employee benefits

(i) Short term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Contributions to defined contribution retirement plans

Contributions to the Mandatory Provident Funds are required under the Hong Kong Mandatory Provident Fund Scheme Ordinance and mandatory central pension schemes organised by the local governments in Singapore and Malaysia are recognised as an expense in the income statement as incurred.

3. *Significant Accounting Policies (Continued)*

(n) Employee benefits *(Continued)*

(iii) Termination benefits

Termination benefits are recognised when, and only when, the Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal.

(o) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in income statement except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

3. Significant Accounting Policies *(Continued)*

(o) Income tax *(Continued)*

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisable or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividend is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

3. *Significant Accounting Policies (Continued)*

(o) Income tax *(Continued)*

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Revenue recognition

Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the income statement as follows:

(i) Rental income from operating leases

Rental income receivable under operating leases is recognised in income statement in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in income statement as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3. *Significant Accounting Policies* *(Continued)*

(q) Revenue recognition *(Continued)*

(ii) Sale of properties

Revenue from sale of completed properties is recognised upon the signing of sale and purchase agreements.

Revenue from pre-sale of properties under development is recognised by reference to the degree of completion of the development and the terms of payment for properties pre-sold, with due allowance for contingencies where appropriate in respect of agreements entered into before 1 January 2005, while the completion method is adopted for agreements entered into on or after 1 January 2005 pursuant to Hong Kong Interpretation 3 *Revenue – Pre-completion Contracts for the Sale of Development Properties* issued by the HKICPA.

(iii) Interest income

Interest income is recognised as it accrues using the effective interest method.

(iv) Management fee income

Revenue from provision of management services is recognised when the related services are rendered.

(r) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary asset and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in income statement.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

3. Significant Accounting Policies *(Continued)*

(r) Translation of foreign currencies *(Continued)*

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Balance sheet items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the foreign exchange rates ruling at the balance sheet date. The resulting exchange differences are recognised directly in a separate component of equity. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences recognised in equity which relate to that foreign operation is included in the calculation of the income statement on disposal.

(s) Borrowing costs

Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or completed.

(t) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. It also occurs when the operation is abandoned.

3. *Significant Accounting Policies (Continued)*

(t) Discontinued operations *(Continued)*

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

(u) Related parties

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

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

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

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

(iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such art individual, or is an entity under the control, joint control or significant influence of such individuals;

(v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or

(vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

3. *Significant Accounting Policies* *(Continued)*

(v) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include item directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets, and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.

4. *Changes in Accounting Policies*

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarised in note 3. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

4. Changes in Accounting Policies *(Continued)*

The following sets out information on the significant changes in accounting policies for the current and prior accounting years reflected in these financial statements:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 11	Construction Contracts
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 26	Accounting and Reporting by Retirement Benefit Plans
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations
HKFRS 5	Non-current Assets Held for Sale and Discontinued Operations
HK-Int 3	Revenue – Pre-completion Contracts for the Sale of Development Properties
HKAS-Int 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

4. *Changes in Accounting Policies* *(Continued)*

The adoption of HKASs 2, 7, 8, 10, 11, 12, 14, 16, 18, 19, 21, 23, 26, 27, 28, 31, 32, 33, 37, 38 and 39, HKFRS 5, HK-Int 3 and HKAS-Int 21 has had no material impact on the Group's accounting policies and the methods of computation, presentation and disclosures in the Group's consolidated financial statements. The major effects on adoption of the other HKFRSs are summarised as follows:

(a) Changes in presentation (HKAS 1 – Presentation of Financial Statements)

(i) Comparative information on movements in property, plant and equipment (HKAS 1 – Presentation of Financial Statements)

HKAS 1 requires the new disclosures to be made in these financial statements. Accordingly, the Group is no longer permitted not to disclose comparative information on movements in property, plant and equipment.

(ii) Disclosure of judgements and key assumptions (HKAS 1 – Presentation of Financial Statements)

HKAS 1 requires the disclosure of judgements (apart from those involving estimations) and key assumptions concerning the future and other sources of estimation uncertainty. These disclosures are detailed in note 44 to the financial statements.

(iii) Presentation of shares of associates' taxation (HKAS 1 – Presentation of Financial Statements)

In prior years, the Group's share of taxation of associates accounted for using the equity method was included as part of the Group's income tax in the consolidated income statement. With effect from 1 January 2005, in accordance with the implementation guidance in HKAS 1, the Group has changed the presentation and includes the share of taxation of associates accounted for using the equity method in the shares of profit or loss reported in the consolidated income statement before arriving at the Group's profit or loss before taxation. These changes in presentation have been applied retrospectively.

(iv) Minority interests (HKAS 1 – Presentation of Financial Statements and HKAS 27 – Consolidated and Separate Financial Statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the income statement as a deduction before arriving at the loss/profit attributable to the equity holders of the Company.

4. *Changes in Accounting Policies* *(Continued)*

(a) Changes in presentation (HKAS 1 – Presentation of Financial Statements) *(Continued)*

(iv) Minority interests (HKAS 1 – Presentation of Financial Statements and HKAS 27 – Consolidated and Separate Financial Statements) (Continued)

With effect from 1 January 2005, in order to comply with HKAS 1 and HKAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new policy, minority interests are presented as part of equity, separately from interests attributable to the equity holders of the Company. Further details of the new policy are set out in note 3(a). These changes in presentation have been applied retrospectively with comparatives restated as shown in note 4(f).

(b) Leasehold land and buildings for own use (HKAS 17 – Leases)

The adoption of HKAS 17 has resulted in a change in accounting policy relating to leasehold land. Leasehold land and buildings were previously carried at cost less accumulated depreciation and impairment loss. Following the adoption of HKAS 17, the Group's leasehold interest in land and buildings are separated into leasehold land and leasehold buildings. The Group's leasehold land is classified as an operating lease, because the title of the land is not expected to pass to the Group by the end of the lease term, and are reclassified from property, plant and equipments to land lease prepayments, while leasehold buildings continue to be classified as part of property, plant and equipment. Land lease prepayments under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms.

The effects of the above changes are summarised in notes 4(f) to the financial statements. In accordance with the transitional provisions of HKAS 17, comparative amounts on the balance sheets for the year ended 31 December 2004 have been restated to reflect the reclassification of leasehold land.

(c) Amortisation of positive and negative goodwill (HKFRS 3 – Business combinations and HKAS 36 – Impairment of assets)

In prior years:

- positive or negative goodwill which arose prior to 1 January 2001 was taken directly to reserves at the time it arose, and was not recognised in the income statement until disposal or impairment of the acquired business;

4. Changes in Accounting Policies *(Continued)*

(c) Amortisation of positive and negative goodwill (HKFRS 3 – Business combinations and HKAS 36 – Impairment of assets) *(Continued)*

In prior years: *(Continued)*

- positive goodwill which arose on or after 1 January 2001 was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and

- negative goodwill which arose on or after 1 January 2001 was amortised over the weighted average useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from 1 January 2005, in order to comply with HKFRS 3 and HKAS 36, the Group has changed its accounting policies relating to goodwill. Under the new policy, the Group no longer amortises positive goodwill but tests it at least annually for impairment. Also with effect from 1 January 2005 and in accordance with HKFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises. Further details of these new policies are set out in note 3(c).

The new policy in respect of the amortisation of positive goodwill has been applied prospectively in accordance with the transitional arrangements under HKFRS 3. The effects of changes in the accounting policy described above on the results for the current and prior year are set out in notes 4(g).

(d) Investment property (HKAS 40 – Investment property)

Changes in accounting policies relating to investment properties are as follows:

(i) Timing of recognition of movements in fair value in the income statement

In prior years, movements in the fair value of the Group's investment property were recognised directly in the investment property revaluation reserve except when, on a portfolio basis, the reserve was insufficient to cover a deficit on the portfolio, or when a deficit previously recognised in the income statement had reversed, or when an individual investment property was disposed of. In these limited circumstances, movements in the fair value were recognised in the income statement.

4. *Changes in Accounting Policies* *(Continued)*

(d) Investment property (HKAS 40 – Investment property) *(Continued)*

(i) Timing of recognition of movements in fair value in the income statement (Continued)

Upon adoption of HKAS 40 as from 1 January 2005, the Group has adopted a new policy for investment property. Under this new policy, all changes in the fair values of investment property are recognised directly in the income statement in accordance with the fair value model in HKAS 40.

Further details of the new policy for investment property are set out in note 3(e).

(ii) Description of transitional provisions and effect of adjustments

The change in accounting policies relating to investment properties has no material effect to the Group. In prior years, where an increase previously been recognised in the investment property revaluation reserve was insufficient to cover a revaluation deficit subsequently arose, that decrease was charged to the income statement. In 2003, the investment property revaluation reserve was fully utilised and the loss resulting from the changes in the fair value of the investment properties in 2003 and 2004 was recognised directly in the income statement for the years ended 31 December 2003 and 2004 respectively. As a result, the investment property revaluation reserve was carried at nil as at 31 December 2003 and 2004. Accordingly, comparative information has not been restated upon adoption of HKAS 40.

(e) Definition of related parties (HKAS 24 – Related Party Disclosures)

As a result of the adoption of HKAS 24 *Related Party Disclosures*, the definition of related parties as disclosed in note 3(u) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period, as compared to those that would have been reported had SSAP 20 *Related Party Disclosures* still been in effect.

4. Changes in Accounting Policies *(Continued)*

(f) The cumulative effects of the application of the new HKFRSs on 31 December 2004 and 1 January 2005 are summarised below:

The Group	As at 31 December 2004 (as previously reported)	Retrospective adjustments HKAS 1	HKAS 17	As at 31 December 2004 (as restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance sheet items				
Property, plant and equipment	410	–	(255)	155
Land lease prepayments	–	–	255	255
Other net assets	179,577	–	–	179,577
Total effects on assets and liabilities	179,987	–	–	179,987
Share capital	256,116	–	–	256,116
Accumulated losses	(433,271)	–	–	(433,271)
Other reserves	357,122	–	–	357,122
Minority interests	–	20	–	20
Total effects on equity	179,967	20	–	179,987
Minority interests	20	(20)	–	–

4. Changes in Accounting Policies *(Continued)*

(g) The effects of changes in the above accounting policies described above on the results for the current and prior year are as follows:

	2005	2004
	HK$'000	*HK$'000*
The adoption of HKFRS 3 and HKAS 38 that the Group no longer amortised its positive goodwill, resulted in:		
Increase in goodwill included in the interest in associates	**4,371**	–
Decrease in other operating expenses	**4,371**	–
Decrease in loss per share	**HK0.17 cents**	–

5. Turnover

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

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

	2005	2004 (restated)
	HK$'000	*HK$'000*
Continuing operations:		
Gross rental income from investment properties	**119**	570
Gross proceeds from properties sold	**102**	8,134
Interest income from loan receivables	**–**	3,565
	221	12,269
Discontinued operations: ***(note 9(b))***		
Gross rental income from investment properties in Mainland China	**–**	60
	221	12,329

6. *Other Revenue and Net Income*

	2005	2004
		(restated)
	HK$'000	*HK$'000*
Other revenue		
Continuing operations:		
Management fee income	–	718
Bank interest income	9	19
Sundry	605	179
	614	916
Discontinued operations: *(note 9(b))*		
Sundry	–	139
	614	1,055

	2005	2004
	HK$'000	*HK$'000*
Other net income		
Continuing operations:		
Gain on disposal of subsidiaries	–	3
Gain on strike off of subsidiaries	–	30
Gain on disposal of a short term investment	–	708
	–	741
Discontinued operations: *(note 9(b))*		
Gain on disposal of investment properties	–	435
	–	1,176

7. *(Loss)/Profit before Taxation*

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

		2005	2004
			(restated)
		HK$'000	*HK$'000*
(a)	Finance costs		
	Continuing operations:		
	Interest on bank advances and other borrowings wholly repayable within five years	**4,358**	4,434
	Finance charges on obligations under finance leases	**1**	26
	Other borrowing costs	**1**	–
	Total borrowing costs	**4,360**	4,460
(b)	Staff costs (including directors' remuneration)		
	Continuing operations:		
	Contributions to defined contribution retirement plan	**29**	85
	Salaries, wages and other benefits	**1,114**	2,701
		1,143	2,786
	Discontinued operations: *(note 9(b))*		
	Contributions to defined contribution retirement plan	**–**	5
	Salaries, wages and other benefits	**–**	140
		–	145
		1,143	2,931

7. *(Loss)/Profit before Taxation* *(Continued)*

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

	2005	2004
		(restated)
	HK$'000	*HK$'000*
(c) Other items		
Continuing operations:		
Amortisation of land lease prepayments	**7**	15
Amortisation of goodwill included in share of profits less losses of associates	**–**	4,371
Depreciation of property, plant and equipment		
– owned assets	**33**	239
– assets under finance leases	**–**	41
	33	280
Auditors' remuneration	**453**	877
Operating lease charges: minimum lease payments	**235**	547
Share of taxation of the associates	**–**	164
Valuation losses on investment property	**–**	982
Loss on disposal of a subsidiary*	**8**	–
Loss on disposal of property, plant and equipment*	**–**	21
Impairment loss of		
– property, plant and equipment* *(note 16(a))*	**–**	131
– land lease prepayments* *(note 17(c))*	**–**	30
– loan and interest receivables* *(note 22(a))*	**–**	5,358
– consideration receivables*		
– subsidiaries *(notes 23(a) and (b))*	**68,256**	7,609
– short term investment *(note 23(c))*	**7,652**	–
	75,908	7,609
– trade receivables* *(note 25(a))*	**645**	–
– other receivables* *(note 25(b))*	**1,344**	671
Write off of other receivables* *(note 25(b))*	**–**	71
Cost of property development *(note 24(d))*	**2,182**	8,268
Net foreign exchange loss*	**305**	249
Rental income from investment properties less direct outgoings of HK$67,000 (2004: HK$212,000)	**(52)**	(358)
Discontinued operations:		
Rental income from investment properties less direct outgoings of nil (2004: HK$6,000)	–	(54)

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

8. Income Tax in the Consolidated Income Statement

(a) Continuing operations

(i) Taxation in the consolidated income statement represents:

For the year ended 31 December 2005, no provision for Hong Kong profits tax has been made as the Group has no estimated assessable profits for the year. For the year ended 31 December 2004, no provision for Hong Kong profits tax has been made as the Group has accumulated tax losses brought forward which exceed the estimated assessable profits for that year.

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 2005 and 2004.

(ii) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2005	2004
		(restated)
	HK$'000	*HK$'000*
Loss before taxation	**(99,741)**	(30,536)
Notional tax on loss before taxation, calculated at the applicable rate of 17.5%	**(17,455)**	(5,344)
Tax effect of non-taxable income	**(64)**	(151)
Tax effect of non-deductible expenses	**16,728**	3,433
Tax effect of tax losses not recognised	**1,973**	2,567
Tax effect of utilisation of tax losses not previously recognised	**–**	(281)
Effect of different taxation rate used in other jurisdictions	**(541)**	(111)
Others	**(641)**	(113)
Actual tax expense	**–**	–

8. *Income Tax in the Consolidated Income Statement (Continued)*

(b) Discontinued operations *(note 9(b))*

(i) Taxation in the consolidated income statement represents:

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising from Hong Kong during the years ended 31 December 2005 and 2004.

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 2005 and 2004.

(ii) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2005	2004
		(restated)
	HK$'000	*HK$'000*
Profit before taxation	–	373
Notional tax on profit before taxation, calculated at the applicable rate of 17.5%	–	65
Tax effect of non-taxable income	–	(74)
Effect of different taxation rate used in other jurisdictions	–	9
Actual tax expense	–	–

9. *Discontinued Operations*

The Group's securities broking and investment operations, and property investment and development in Mainland China were discontinued during the year ended 31 December 2004.

(a) Securities broking and investment operations

On 18 October 2004, one of the Group's associates, Koffman Securities Limited ("Koffman Securities") ceased its securities broking, underwriting and placing services, and management and consultancy services due to the continuous decline in turnover for the previous years. Following the cessation of business of Koffman Securities, the directors resolved on 20 October 2004 to cease the securities broking services and the trading in listed equity investments operations.

9. *Discontinued Operations (Continued)*

(a) Securities broking and investment operations *(Continued)*

As a consequence of the above, the securities broking and investment operations were reported as discontinued operations.

The results of the discontinued operations for the years ended 31 December 2005 and 2004 are as follows:

	2005 HK$'000	2004 HK$'000
Turnover	–	–
Expenses	–	–
Loss from operations	–	–
Share of profits less losses of associates	–	–
Loss before taxation	–	–
Taxation	–	–
Loss for the year	–	–

There were no cash flows in relation to the securities broking and investment operations for the years ended 31 December 2005 and 2004.

(b) Property investment and development in Mainland China

On 20 February 2004, the Group entered into certain sale and purchase agreements to dispose of all of its investment properties in Shanghai, the People's Republic of China (the "PRC"), for a total consideration, net of selling expenses, of approximately HK$9,024,000. The disposal was completed and settled in May 2004. Part of the sale proceeds was used to repay all the related outstanding bank borrowings in Mainland China and the remaining balance was used as the Group's working capital.

As a consequence of the above, the geographical segment of Mainland China of the Group were reported as discontinued operations.

9. Discontinued Operations *(Continued)*

(b) Property investment and development in Mainland China *(Continued)*

The results of the discontinued operations for the years ended 31 December 2005 and 2004 are as follows:

	Note	**2005** ***HK$'000***	2004 *HK$'000*
Turnover	5	**–**	60
Other revenue	6	**–**	139
Gain on disposal of investment properties	6	**–**	435
Staff costs	7(b)	**–**	(145)
Other operating expenses		**–**	(116)
Profit from operations		**–**	373
Share of profits less losses of associates		**–**	–
Profit before taxation	7	**–**	373
Taxation	8(b)	**–**	–
Profit for the year		**–**	373

The net cash inflows of the discontinued operations for the years ended 31 December 2005 and 2004 are as follows:

	2005 ***HK$'000***	2004 *HK$'000*
Net cash outflow in operating activities	**–**	(2)
Net cash inflow in investing activities	**–**	855
Net cash flow in financing activities	**–**	–
Net cash inflow incurred by the discontinued operations	**–**	853

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

10. Directors' Remuneration

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

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2005 Total HK$'000
Executive directors:				
Kong Li Szu	160	–	–	160
Kong Li Jer	–	–	–	–
Kong Lok King	–	–	–	–
Independent non-executive directors:				
Fai Cheong Hau (deceased on 3/4/2005)	–	–	–	–
Ku Suen Fai	90	–	–	90
Ip Man Tin, David	75	–	–	75
Sin Wai Chiu, Joseph	75	–	–	75
Chan Shing Hoi, Alfred (resigned on 15/5/2005)	74	–	–	74
	474	–	–	474

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	2004 Total HK$'000
Executive directors:				
Kong Li Szu	–	652	12	664
Kong Li Jer	–	–	–	–
Kong Lok King	–	–	–	–
Independent non-executive directors:				
Fai Cheong Hau	60	–	–	60
Ku Suen Fai	60	–	–	60
	120	652	12	784

10. *Directors' Remuneration (Continued)*

For the years ended 31 December 2005 and 2004, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Company or as a compensation for loss of office. None of the directors waived or agreed to waive any remuneration for the years ended 31 December 2005 and 2004.

11. *Individuals with Highest Emoluments*

Of the five individuals with the highest emoluments, three (2004: one) are directors whose emoluments are disclosed in note 10. The aggregate of the emoluments in respect of the other one (2004: four) individuals are as follows:

	2005 **HK$'000**	2004 HK$'000
Salaries and other emoluments	**756**	1,562
Retirement scheme contributions	**19**	36
	775	1,598

The emoluments of the two (2004: four) individuals with the highest emoluments are within the following bands:

	2005 **Number of individuals**	2004 Number of individuals
Nil – HK$1,000,000	**2**	4

For the years ended 31 December 2005 and 2004, no emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join or upon joining the Group or as a compensation for loss of office.

12. *Loss Attributable to Equity Holders of the Company*

The consolidated loss attributable to equity holders of the Company includes a loss of HK$135,453,000 (2004: HK$25,115,000) which has been dealt with in the financial statements of the Company (note 32(b)).

13. (Loss)/Earnings per Share

(a) Basic (loss)/earnings per share

The calculation of (loss)/earnings per share is based on the (loss)/profit attributable to ordinary equity holders of the Company and the weighted average number of ordinary shares in issue during the year, calculated as follows:

(i) (Loss)/profit attributable to ordinary equity holders of the Company

	2005	2004
	HK$'000	*HK$'000*
Continuing operations	**(99,735)**	(30,335)
Discontinued operations	**–**	373
	(99,735)	(29,962)

(ii) Weighted average number of ordinary shares

	2005	2004
	'000	*'000*
Weighted average number of ordinary shares at 31 December	**2,561,167**	2,561,167

(b) Diluted (loss)/earnings per share

The diluted loss/earnings per share is not presented as there were no diluted potential ordinary shares in existence during the years ended 31 December 2005 and 2004.

14. 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. The Group was also involved in securities broking and investment operations, and property investment and development in Mainland China which were discontinued in 2004 as set out in note 9.

14. Segment Reporting *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is set out as follows:

For the year ended 31 December 2005

	Continuing operations			Discontinued operations			
	Property investment and development other than Mainland China	Financial services	Sub-total	Property investment and development in Mainland China	Securities broking and investment	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue							
Revenue from external customers	221	–	221	–	–	–	221
Other revenue and net income from external customers	605	–	605	–	–	–	605
Total	826	–	826	–	–	–	826
Segment result	(14,724)	–	(14,724)	–	–	–	(14,724)
Bank interest income and unallocated operating income			9			–	9
Unallocated operating expenses			(72,835)			–	(72,835)
Loss from operations			(87,550)			–	(87,550)
Finance costs			(4,360)			–	(4,360)
Share of profits less losses of associates	(7,831)		(7,831)			–	(7,831)
Loss before taxation			(99,741)			–	(99,741)
Taxation			–			–	–
Loss for the year			(99,741)			–	(99,741)

14. Segment Reporting *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is set out as follows: *(Continued)*

For the year ended 31 December 2005 *(Continued)*

	Continuing operations			Discontinued operations			
	Property investment and development other than Mainland China	Financial services	Sub-total	Property investment and development in Mainland China	Securities broking and investment	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities							
Segment assets	9,416	39,512	48,928	–	–	–	48,928
Interest in associates	88,572	–	88,572	–	–	–	88,572
	97,988	39,512	137,500	–	–	–	137,500
Unallocated corporate assets			423			–	423
Total assets			137,923			–	137,923
Segment liabilities	6,085	19	6,104	–	–	–	6,104
Unallocated corporate liabilities	–	–	51,565	–	–	–	51,565
Total liabilities	6,085	19	57,669	–	–	–	57,669
Other information							
Depreciation of property, plant and equipment	33	–	33	–	–	–	33
Amortisation of land lease prepayments	7	–	7	–	–	–	7
Impairment of:							
– trade receivables	645	–	645	–	–	–	645
– other receivables	1,344	–	1,344	–	–	–	1,344
– consideration receivables	75,908	–	75,908	–	–	–	75,908

14. Segment Reporting *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is set out as follows: *(Continued)*

For the year ended 31 December 2004

	Continuing operations				Discontinued operations				
	Property investment and development other than Mainland China (restated)	Financial services	Inter-segment elimination	Sub-total	Property investment and development in Mainland China (restated)	Securities broking and investment	Inter-segment elimination	Sub-total	Consolidated (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue									
Revenue from external customers	8,704	3,565	–	12,269	60	–	–	60	12,329
Inter-segment revenue	–	2,065	(2,065)	–	–	–	–	–	–
Other revenue and net income from external customers	872	3	–	875	–	–	–	–	875
Total	9,576	5,633	(2,065)	13,144	60	–	–	60	13,204
Segment result	(12,265)	(2,493)	(2,065)	(16,823)	373	–	–	373	(16,450)
Bank interest income and unallocated operating income				180				–	180
Unallocated operating expenses				(5,537)				–	(5,537)
(Loss)/profit from operations				(22,180)				373	(21,807)
Finance costs				(4,460)				–	(4,460)
Share of profits less losses of associates	(3,896)			(3,896)				–	(3,896)
(Loss)/profit before taxation				(30,536)				373	(30,163)
Taxation				–				–	–
(Loss)/profit for the year				(30,536)				373	(30,163)

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

14. Segment Reporting *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is set out as follows: *(Continued)*

For the year ended 31 December 2004 *(Continued)*

	Continuing operations			Discontinued operations			
	Property investment and development other than Mainland China	Financial services	Sub-total	Property investment and development in Mainland China	Securities broking and investment	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities							
Segment assets	106,550	39,562	146,112	–	–	–	146,112
Interest in associates	96,526	–	96,526	–	–	–	96,526
	203,076	39,562	242,638	–	–	–	242,638
Unallocated corporate assets			234			–	234
Total assets			242,872			–	242,872
Segment liabilities	9,361	34	9,395	–	–	–	9,395
Unallocated corporate liabilities	–	–	53,490	–	–	–	53,490
Total liabilities	9,361	34	62,885	–	–	–	62,885
Other information							
Depreciation of property, plant and equipment	157	84	241	–	–	–	241
Depreciation of property, plant and equipment – unallocated	–	–	39	–	–	–	39
			280			–	280

14. Segment Reporting *(Continued)*

Business segments *(Continued)*

Segment information about these businesses is set out as follows: *(Continued)*

For the year ended 31 December 2004 *(Continued)*

	Continuing operations			Discontinued operations			
	Property investment and development other than Mainland China	Financial services	Sub-total	Property investment and development in Mainland China	Securities broking and investment	Sub-total	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other information (Continued)							
Amortisation of land lease prepayments	15	–	15	–	–	–	15
Write-offs of other receivables	62	–	62	–	–	–	62
Write-offs of other receivables – unallocated	–	–	9	–	–	–	9
			71			–	71
Amortisation of goodwill on acquisition of associates	4,371	–	4,371	–	–	–	4,371
Valuation losses on investment property	982	–	982	–	–	–	982
Impairment of:							
– property, plant and equipment	131	–	131	–	–	–	131
– land lease prepayments	30	–	30	–	–	–	30
– other receivables	291	380	671	–	–	–	671
– consideration receivables	7,609	–	7,609	–	–	–	7,609
– loan and interest receivables	–	5,358	5,358	–	–	–	5,358
Capital expenditure incurred during the year	7	–	7	–	–	–	7

14. Segment Reporting *(Continued)*

Business segments *(Continued)*

Notes:

(a) Unallocated corporate assets mainly represent other receivables, prepayments and deposits, cash and deposits with banks, which are shared among the companies of the Group and which cannot be allocated to specific segments.

(b) Unallocated corporate liabilities mainly represent accrued charges, other payables, interest payables, and bank and other borrowings, which are shared among the companies of the Group and which cannot be allocated to specific segments.

Geographical segments

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

	The PRC							
	Hong Kong		Mainland China		Malaysia		Consolidated	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue								
Revenue from external customers								
– Continuing operations	**119**	4,135	**–**	–	**102**	8,134	**221**	12,269
– Discontinued operations	**–**	–	**–**	60	**–**	–	**–**	60
	119	4,135	**–**	60	**102**	8,134	**221**	12,329
Segment assets								
– Continuing operations	**49,249**	135,262	**–**	–	**88,674**	107,610	**137,923**	242,872
	49,249	135,262	**–**	–	**88,674**	107,610	**137,923**	242,872
Segment liabilities								
– Continuing operations	**49,023**	60,415	**–**	–	**8,646**	2,470	**57,669**	62,885
	49,023	60,415	**–**	–	**8,646**	2,470	**57,669**	62,885
Capital expenditure incurred during the year								
– Continuing operations	**–**	–	**–**	–	**–**	7	**–**	7
	–	–	**–**	–	**–**	7	**–**	7

There were no segment assets, liabilities and capital expenditure attributable to discontinued operations during the years ended 31 December 2005 and 2004.

15. *Investment Properties*

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Valuation		
At 1 January	**15,666**	27,117
Disposal of a subsidiary	**(178)**	–
Disposals	**(15,488)**	(10,469)
Fair value adjustment	**–**	(982)
At 31 December	**–**	15,666

(a) At 31 December 2004, investment properties were stated at valuation which was determined by the directors with reference to their subsequent selling prices. In the opinion of the directors, these subsequent selling prices approximated the open market value at the balance sheet date. Valuation losses of approximately HK$982,000 were charged to the income statement.

(b) At 31 December 2004, the analysis of net book value of the Group's investment properties is as follows:

	2004
	HK$'000
In Hong Kong	
– long leases	11,500
– medium-term leases	4,166
	15,666

15. Investment Properties *(Continued)*

(c) Investment properties leased out under operating leases

During 2004, the Group leased out investment properties under operating leases. The leases typically run for an initial period of one year, with an option to renew the lease after that date at which time all terms are renegotiated. None of the leases included contingent rentals.

At 31 December 2004, the carrying amounts of investment properties of the Group held for use under operating leases were approximately HK$3,988,000.

All properties held under operating leases that would otherwise meet the definition of investment property are classified as investment properties.

At the balance sheet date, the total future minimum lease receivables under non-cancellable operating leases are as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 year	–	110

(d) At 31 December 2004, certain of the Group's investment properties with a carrying amount of approximately HK$15,488,000 were pledged to banks to secure banking facilities granted to the Group.

(e) As explained further in note 4(d)(ii) to the financial statements, with effect from 1 January 2005, all changes in the fair values of investment properties are recognised directly in the income statement in accordance with the fair value model in HKAS 40. In 2003, the investment property revaluation reserve was fully utilised and the loss resulting from the changes in the fair value of the investment properties in 2003 and 2004 was recognised directly in the income statement for the years ended 31 December 2003 and 2004 respectively. As a result, the investment property revaluation reserve was carried at nil as at 31 December 2003 and 2004. Accordingly, comparative information has not been restated upon adoption of HKAS 40.

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

16. Property, Plant and Equipment

(a) The Group

	Building held for own use HK$'000	Leasehold improvements HK$'000	Office furniture and equipment HK$'000	Motor vehicles HK$'000	Total fixed assets HK$'000
Cost					
At 1 January 2004 (restated)	267	126	2,513	150	3,056
Exchange adjustments	–	1	3	–	4
Additions	–	–	7	–	7
Disposals	–	(67)	(760)	–	(827)
At 31 December 2004 (restated) and 1 January 2005 (restated)	267	60	1,763	150	2,240
Disposal of a subsidiary	(267)	–	–	–	(267)
Disposals	–	(60)	(1,763)	(150)	(1,973)
At 31 December 2005	–	–	–	–	–
Accumulated amortisation and depreciation					
At 1 January 2004 (restated)	117	92	2,164	103	2,476
Exchange adjustments	–	1	3	–	4
Charge for the year	7	7	228	38	280
Impairment loss	15	–	107	9	131
Written back on disposals	–	(47)	(759)	–	(806)
At 31 December 2004 (restated) and 1 January 2005 (restated)	139	53	1,743	150	2,085
Charge for the year	6	7	20	–	33
Disposal of a subsidiary	(145)	–	–	–	(145)
Written back on disposals	–	(60)	(1,763)	(150)	(1,973)
At 31 December 2005	–	–	–	–	–
Net book value					
At 31 December 2005	–	–	–	–	–
At 31 December 2004 (restated)	128	7	20	–	155

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

16. Property, Plant and Equipment *(Continued)*

(a) The Group *(Continued)*

(i) At 31 December 2004, the Group's buildings held for own use were situated on the leasehold land held under medium-term leases in Hong Kong.

(ii) In 2004, the directors assessed the recoverable amounts of property, plant and equipment and concluded that:

– the carrying amounts of buildings were written down by approximately HK$15,000, based on their fair values less costs to sell, determined with reference to the subsequent selling price of the land (note 17(c)) and buildings; and

– the carrying amounts of other items were written down by approximately HK$116,000, based on their physical conditions and their estimated net selling prices.

The aggregate impairment losses of HK$131,000 were included in other operating expenses.

(b) The Company

	Office furniture and equipment	
	2005	2004
	HK$'000	*HK$'000*
Cost		
At 1 January	**8**	15
Disposals	**(8)**	(7)
At 31 December	**–**	8
Accumulated depreciation		
At 1 January	**8**	14
Charge for the year	**–**	1
Written back on disposals	**(8)**	(7)
At 31 December	**–**	8
Net book value		
At 31 December	**–**	–

17. Land Lease Prepayments

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Net book value at 1 January		
– as previously reported	**–**	–
– reclassified upon adoption of HKAS 17	**255**	300
– as restated	**255**	300
Disposals	**(248)**	–
Amortised during the year	**(7)**	(15)
Impairment for the year	**–**	(30)
Net book value at 31 December	**–**	255
Current portion of non-current assets	**–**	(11)
Non-current portion	**–**	244

(a) At 31 December 2004, the cost of land lease prepayments held for own use was approximately HK$533,000.

(b) At the balance sheet date, the analysis of net book value is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
In Hong Kong		
– medium-term leases	**–**	255

(c) In 2004, the directors made an impairment of HK$30,000 in the land lease prepayments, based on their fair value less costs to sell, determined with reference to the subsequent selling price of the land and buildings (note 16(a)(ii)). The impairment loss of HK$30,000 was included in other operating expenses.

18. Investments in Subsidiaries

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Unlisted shares, at cost	**5,000**	5,000
Less: Impairment loss	**(5,000)**	(5,000)
	–	–
Loans to subsidiaries	**–**	211,579
Less: Impairment loss	**–**	(169,523)
	–	42,056
Amounts due from subsidiaries	**620,566**	439,867
Less: Impairment loss	**(518,788)**	(249,406)
	101,778	190,461
Amounts due to subsidiaries	**(17,139)**	(16,998)
	84,639	215,519

(a) At 31 December 2004, the loans to subsidiaries, of which approximately HK$41,303,000 bore interest at Hong Kong prime rate per annum, were unsecured and were not repayable within one year from 31 December 2004. In 2005, loans to subsidiaries of approximately HK$211,579,000 were revised as unsecured, interest-free and had no fixed terms of repayment, and reclassified as amounts due from subsidiaries in 2005.

The amounts due from/to subsidiaries were unsecured, interest-free and had no fixed terms of repayment. In the opinion of the directors, the amounts due from/to subsidiaries were not repayable within one year from the balance sheet date as the Company has given undertakings to provide continuous financial support to the subsidiaries by subordinating its rights to demand repayment of all sums due by the subsidiaries to their creditors.

(b) Impairment on investments in subsidiaries

In view of the uncertainty of the recovery of the outstanding balance in that the subsidiaries sustained losses and had poor operating performance and that the subsidiaries were not financially capable of repaying to the Company, the directors concluded that it is appropriate to make an impairment of:

(i) HK$5,000,000 (2004: HK$5,000,000) on the investment cost in a subsidiary, namely Peace Hill Securities Company Limited ("Peace Hill"). The main assets of Peace Hill are the investments in (i) an associate, namely Koffman Securities Limited, operating in the business of securities broking and investment that were reported as discontinued operations in 2004 as referred to note 9(a), and (ii) a subsidiary, namely Dual Aim Sdn. Bhd., operating in the business of property development in Malaysia, which has sustained loss since the acquisition by Peace Hill in 2001. After considering the poor operating performance of Peace Hill and its investments, the directors are of the view that Peace Hill would not have any value to the Company and the carrying amount of the investment in Peace Hill is fully written down to nil; and

18. Investments in Subsidiaries *(Continued)*

(b) Impairment on investments in subsidiaries *(Continued)*

(ii) HK$518,788,000 on amounts due from subsidiaries (2004: HK$249,406,000 and HK$169,523,000 on amounts due from subsidiaries and loans to subsidiaries respectively), after considering the profitability, financial positions, cash flows and future prospects of these subsidiaries, and certain key assumptions. Further details are set out in notes 18(c)(i) and (ii).

The recoverable amount of the investments in subsidiaries based upon which impairment loss is arrived at is its value in use and is determined using discounted cash flows. The discount rate used is 26.4%, which is determined with reference to the borrowing rates of the Group as at the balance sheet date.

(c) Movements of provision for impairment losses on amounts due from subsidiaries are analysed as follows:

	The Company	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**249,406**	343,422
Reclassified from provision for impairment losses on the loans to subsidiaries	**169,523**	–
Charge for the year	**99,859**	30,106
Write-offs *(note)*	**–**	(124,122)
At 31 December	**518,788**	249,406

note: In 2004, in view of the uncertainty of the recovery of the outstanding balance of approximately HK$124,122,000 due from the subsidiaries in financial difficulties and being disposed of by the Company in 2004, the directors concluded to write off the amounts of approximately HK$124,122,000 due from these subsidiaries against the provision for impairment losses.

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

18. Investments in Subsidiaries *(Continued)*

(c) Movements of provision for impairment losses on amounts due from subsidiaries are analysed as follows: *(Continued)*

At 31 December 2005, the provision for impairment losses on investments in subsidiaries by business segment are as follows:

	The Company	
	2005	2004
	HK$'000	*HK$'000*
Property investment and development	**303,699**	224,608
Financial services	**203,564**	13,844
Securities broking and investment #	**2,385**	2,381
Trading of computer products and office equipment *	**7,413**	6,846
Information technology *	**1,727**	1,727
	11,525	10,954
	518,788	249,406

\# Reported as discontinued operations in 2004
* Reported as discontinued operations in 2003

(i) Provision for impairment losses in relation to the subsidiaries engaged in property investment and development business, and financial services business:

In 2005, the operating performance of subsidiaries engaged in the property investment and development business and in the financial services business were 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 were in financial difficulties and sustained loss. The directors concluded that it is appropriate to make an impairment of approximately HK$303,699,000 (2004: HK$224,608,000) and HK$203,564,000 (2004: HK$13,844,000) on the amounts due from the subsidiaries operating in the property investment and development business and the financial services business respectively.

(ii) Provision for impairment losses in relation to the subsidiaries engaged in businesses which have been discontinued in 2003 and 2004:

The businesses of trading of computer products and office equipment, and information technology were discontinued in 2003 and that of securities broking and investment were discontinued in 2004. As a result, subsidiaries engaged in these operations became inactive when their operations were discontinued. In view of the uncertainty of the recovery of the amounts due from these inactive subsidiaries which were no longer able to generate sufficient cash flow to repay the Company in the foreseeable future, the directors are of the opinion that it is appropriate to make a full impairment on the aggregate amount of approximately HK$11,525,000 (2004: HK$10,954,000) due from the subsidiaries.

(Expressed in Hong Kong Dollars)

18. Investments in Subsidiaries *(Continued)*

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

			Proportion of ownership interest			
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 after disposals of its properties
Best Spot Investments Limited ("Best Spot")	Hong Kong	2 shares of HK$1 each	100%	–	100%	Investment holding
Bestwick Limited	Hong Kong	2 shares of HK$1 each	100%	100%	–	Investment holding
Dual Aim Management Sdn. Bhd.	Malaysia	3 shares of MYR1 each	100%	–	100%	Provision of management services
Dual Aim Sdn. Bhd.	Malaysia	250,000 shares of MYR1 each	100%	–	100%	Property development
Healthy Profit Enterprises Limited	British Virgin Islands	1 share of US$1 each	100%	–	100%	Investment holding
Hua Chiao Development Limited ("Hua Chiao")	Hong Kong	650,000 shares of HK$ 1 each	100%	–	100%	Investment holding
Jiang Sun Group Pte. Limited *	Singapore	2 shares of S$1 each	100%	–	100%	Inactive after disposals of its properties

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

18. Investments in Subsidiaries *(Continued)*

Name of company	Place of incorporation and operation	Particulars of issued and paid-up capital	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Principal activity
Kong Sun (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 after disposals of its properties
Kong Sun Resources Limited ("Kong Sun Resources")	Hong Kong	2 shares of HK$1 each	100%	–	100%	Inactive after disposals of its properties
Kong Sun Technology Limited	Hong Kong	2 shares of HK$1 each	100%	–	100%	Investment holding
Pacpo Hong Kong Company Limited ("Pacpo Hong Kong")	Hong Kong	2 shares of HK$1 each	100%	100%	–	Investment holding
Pacpo Investments Limited	Hong Kong	2 shares of US$1 each	100%	100%	–	Provision of loan finance services
Peace Hill Securities Company Limited	Hong Kong	5,000,000 shares of HK$1 each	100%	100%	–	Investment holding
Xswim Digital Limited	Hong Kong	2 shares of HK$1 each	54%	–	54%	Investment holding
Xswim (Holding) Limited ("Xswim Holding")	British Virgin Islands	1,111 shares of US$1 each	54%	–	54%	Investment holding
Xswim Technology Limited ("Xswim Technology")	Hong Kong	2 shares of HK$1 each	54%	–	54%	Inactive

* Company not audited by CCIF CPA Limited. The financial statements of the subsidiary not audited by CCIF CPA Limited reflect total net assets and total turnover constituting approximately 4% and 0% respectively of the related consolidated totals.

19. Goodwill

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Cost		
At 1 January, as previously reported	**17,478**	18,580
Opening balance adjustment to eliminate accumulated amortisation	**(7,549)**	–
At 1 January, as restated	**9,929**	18,580
Strike off of a subsidiary	**–**	(1,102)
At 31 December	**9,929**	17,478
Accumulated amortisation		
At 1 January, as previously reported	**7,549**	8,651
Eliminated against cost at 1 January 2005	**(7,549)**	–
At 1 January, as restated	**–**	8,651
Strike off of a subsidiary	**–**	(1,102)
At 31 December	**–**	7,549
Impairment loss		
At 1 January and 31 December	**9,929**	9,929
Carrying amount		
At 31 December	**–**	–

Prior to the year ended 31 December 2004, goodwill was recognised as an expense on a straight-line basis over its useful life of five years.

As explained further in note 4(c) to the financial statements, with effect from 1 January 2005, the Group no longer amortises goodwill. In accordance with the transitional provisions, set out in HKFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date.

20. Interest in Associates

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Share of net assets	**74,004**	81,835
Goodwill on acquisition of United Victoria	**14,568**	14,568
	88,572	96,403

(a) The following list contains only the particulars of associates, all of which are unlisted corporate entities, which principally affected the results or assets of the Group:

				Proportion of ownership interest			
Name of associate	**Form of business structure**	**Place of incorporation and operations**	**Particulars of issued and paid up capital**	**Groups' effective interest**	**Held by the Company**	**Held by a subsidiary**	**Principal activity**
United Victoria Sdn. Bhd. ("United Victoria")*	Incorporated	Malaysia	800,000 ordinary shares of MYR1 each	50%	–	50%	Investment holding
Aset Nusantara Development Sdn. Bhd. ("Aset Nusantara")*	Incorporated	Malaysia	250,000 ordinary shares of MYR1 each	21%	–	42%	Property development

* Companies not audited by CCIF CPA Limited.

20. *Interest in Associates (Continued)*

(b) Movements of the goodwill during the year are analysed as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Cost		
At 1 January, as previously reported	**21,853**	23,470
Opening balance adjustment to eliminate accumulated amortisation	**(7,285)**	–
At 1 January, restated	**14,568**	23,470
Strike off of associates	**–**	(1,617)
At 31 December	**14,568**	21,853
Accumulated amortisation		
At 1 January, as previously reported	**7,285**	4,531
Eliminated against cost at 1 January	**(7,285)**	–
At 1 January, as restated	**–**	4,531
Amortisation for the year	**–**	4,371
Strike off of associates	**–**	(1,617)
At 31 December	**–**	7,285
Carrying amount		
At 31 December	**14,568**	14,568

Until 31 December 2004, goodwill was recognised as an expense on a straight-line basis over its useful life of five years. The amortisation of goodwill for the year was included in "share of profits less losses of associates" in the consolidated income statement.

20. Interest in Associates *(Continued)*

(b) Movements of the goodwill during the year are analysed as follows: *(Continued)*

The balance of the goodwill related to the acquisition of United Victoria, which holds 42% equity interest in Aset Nusantara. The major asset of Aset Nusantara represents its land use right in Malaysia with the carrying amount of approximately HK$702,507,000 as at 31 December 2005. In 2005, the directors assessed the recoverable amount of the goodwill and concluded no impairment on goodwill. As the directors have not determined whether the Group will allocate sufficient resources to fund and launch the business development of these associates in accordance with their expansion plans, the recoverable amount of the relevant goodwill has been determined with reference to fair value less costs to sell. With reference to valuation assessed by an independent professional valuer, the directors are of the opinion that the fair value of the land use right of Aset Nusantara as at 31 December 2005 was approximately HK$875,260,000, resulting in an unrecognised appreciation of approximately HK$172,753,000, which has not been reflected in the financial information disclosed under note 20(d). Accordingly, the directors are of the opinion that the recoverable amount of the interest in associates is higher than the carrying value of the interest in associates and no impairment loss on goodwill is considered necessary, although the operating performance of the associates was deteriorated. The valuation of the land use right of Aset Nusantara is performed by Raja Hamzah & Associates, an independent valuer and a registered valuer in Malaysia, on an open market basis.

(c) A summary of the financial information of United Victoria, based on its financial statements and adjusted for the alignment of the associate's accounting policies with those of the Group, is as follows:

	2005	2004
	HK$'000	*HK$'000*
Non-current assets	**25,477**	25,539
Current liabilities	**(33,228)**	(24,246)
Equity	**(7,751)**	1,293
Revenue	**–**	–
Loss for the year	**(9,044)**	(6)

20. Interest in Associates *(Continued)*

(d) A summary of the financial information of Aset Nusantara, based on its financial statements and adjusted for the alignment of the associate's accounting polices with those of the Group, is as follows:

	2005 HK$'000	2004 HK$'000
Non-current assets	**53**	72
Current assets	**741,259**	735,397
Current liabilities	**(133,620)**	(102,379)
Non-current liabilities	**(176,029)**	(185,672)
Equity	**431,663**	447,418
Revenue	**6,801**	30,437
(Loss)/profit for the year	**(15,755)**	2,274

21. Available-for-sale Securities

	The Group 2005 HK$'000	The Group 2004 HK$'000
Unlisted shares, at cost	**6,537**	6,537

(a) Unlisted investments in securities are classified as available-for-sale securities and carried at cost less impairment, if any, as they do not have a quoted market price in an active market to determine their fair value.

(b) At 31 December 2005, the long term investment represented the Group's investment in 5% equity interest in Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), a company incorporated in Malaysia having issued share capital of MYR50,000,000. Pioneer Heritage is principally engaged in property holding in Malaysia.

(c) The directors are of the opinion that there was no evidence that the available-for-sale securities were impaired at 31 December 2005 and the fair value of the investment at 31 December 2005 was not materially different from its carrying amount.

22. *Loan and Interest Receivables*

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Loan receivables		
Secured		
– amount due from a shareholder of an associate *(note (a))*	**39,510**	39,510
Unsecured		
– amount due from an independent third party *(note (b)(i))*	**6,667**	6,667
– amounts due from others *(note (b)(ii))*	**59,153**	59,153
	65,820	65,820
Gross loan receivables	**105,330**	105,330
Less: Impairment loss		
Unsecured loan receivables		
– amount due from an independent third party *(note (b)(i))*	**(6,667)**	(6,667)
– amounts due from others *(note (b)(ii))*	**(59,153)**	(59,153)
	(65,820)	(65,820)
Net loan receivables	**39,510**	39,510
Interest receivables		
Secured loan receivables		
– amount due from a shareholder of an associate *(note (a))*	**5,358**	5,358
Unsecured loan receivables		
– amounts due from others *(note (b)(ii))*	**4,994**	4,994
Gross interest receivables	**10,352**	10,352
Less: Impairment loss	**(10,352)**	(10,352)
Net interest receivables	**–**	–
	39,510	39,510

22. *Loan and Interest Receivables* *(Continued)*

(a) Secured loans and interest receivables

Amount due from a shareholder of an associate

At 31 December 2005, the Group had a loan receivable of approximately HK$39,510,000 (2004: HK$39,510,000) and a loan interest receivable of approximately HK$5,358,000 (2004: HK$5,358,000) due from a shareholder of an associate, United Victoria (the "Borrower"). Pursuant to the loan agreement, interest is charged at 4% over prime rate per annum. The loan is secured by, as collateral, a pledge of the 20% equity interest in United Victoria owned by the Borrower. The loan was originally due for repayment in 2003. The repayment date of the loan together with interest thereon was extended to June 2005. However, the loan and the interest receivables remain outstanding and overdue at 31 December 2005 and up to the date of the approval of the financial statements.

In view of the uncertainty of the recovery of the outstanding balances in that there was default in repayment of the loan receivable and the interest receivable, and in the absence of any financial information in relation to the Borrower, the directors concluded that it is appropriate to fully impair the interest receivable of approximately HK$5,358,000 (2004: 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.

During the year ended 31 December 2005, the Group no longer recognised the interest income on the loan receivable, in view of an uncertainty in relation to the collectibility, cash flow and fair value of the interest.

In the opinion of the directors, the Group is in the process of enforcing the repayment of the loan and interest receivables by realising the 20% equity interest in United Victoria and the collateral is not expected to be realised within twelve months after the balance sheet date.

At 31 December 2005, the fair value of the collateral was approximately HK$47,273,000 (2004: HK$61,363,000).

(b) Unsecured loan and interest receivables

(i) Amount due from an independent third party

At 31 December 2005, the Group had a loan receivable of approximately HK$6,667,000 (2004: HK$6,667,000) due from an independent third party. Pursuant to the loan agreement, the loan was previously secured by, as collateral, a pledge of 36% equity interest in an unlisted company owned by the independent third party and interest bearing at 10% per annum due in 2004. In 2004, the pledged shares were disposed of by the independent third party with the consent of the Group.

22. *Loan and Interest Receivables* *(Continued)*

(b) Unsecured loan and interest receivables *(Continued)*

(i) Amount due from an independent third party *(Continued)*

In view of the uncertainty of the recovery of the outstanding balance in that there was default in repayment of the outstanding balance which is unsecured and in the absence of any financial information in relation to the debtor, the directors concluded that it is appropriate to make a full impairment on the loan and interest receivables of approximately HK$6,667,000 (2004: HK$6,667,000). The impairment of approximately HK$6,667,000 on the loan receivable was firstly recognised in 2003 as the debtor defaulted the repayment in accordance with the repayment schedule and that the amount under consideration was overdue.

(ii) Amounts due from others

At 31 December 2005, the Group had loan receivables of approximately HK$59,153,000 (2004: HK$59,153,000) and interest receivables of approximately HK$4,994,000 (2004: HK$4,994,000) due from some independent third parties.

In view of the uncertainty of the recovery of the outstanding balances in that there was default in repayment of the outstanding balance which is unsecured and in the absence of any financial information in relation to the debtors, the directors concluded that it is appropriate to make a full impairment on the loan receivables of approximately HK$59,153,000 (2004: HK$59,153,000) and on interest receivables of approximately HK$4,994,000 (2004: HK$4,994,000). The impairment of approximately HK$59,153,000 and HK$4,994,000 on the loan receivables and the interest receivables respectively was firstly recognised in 2003 as the debtors defaulted the repayment in accordance with the repayment schedule and that the amount under consideration was overdue.

23. Consideration Receivables

	The Group	
	2005	2004
	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))*	**71,027**	71,027
	78,636	78,636
Short term investment		
Kong Sheng – amount due from Beijing Tianheng *(note (c))*	**7,652**	7,652
	86,288	86,288
Impairment loss on net proceeds on disposal of:		
Subsidiaries		
Pioneer Heritage – amount due from Pioneer Heritage *(note (a))*	**(7,609)**	(7,609)
Kong Sheng – amount due from Beijing Tianheng *(note (b))*	**(68,256)**	–
Short term investment		
Kong Sheng – amount due from Beijing Tianheng *(note (c))*	**(7,652)**	–
	(83,517)	(7,609)
	2,771	78,679
Amount due for settlement		
– Within one year *(note (b)(ii)* and shown under current assets)	**2,771**	18,691
– After one year *(notes (b)(iii)* and *(c)* and shown under non-current assets)	**–**	59,988
	2,771	78,679

23. *Consideration Receivables (Continued)*

(a) Disposal of 65% interest in Pioneer Heritage, a subsidiary, and amount due from Pioneer Heritage (Receivable: HK$7,609,000; Impairment: HK$7,609,000)

Included above is an amount of approximately HK$7,609,000 (2004: HK$7,609,000) due from Pioneer Heritage Sdn. Bhd. ("Pioneer Heritage"), an investee company of the Group, representing the outstanding net consideration receivable on disposal of 65% equity interest in Pioneer Heritage pursuant to the Principal Agreement as mentioned below.

The Group had previously accounted for the investment in its 70% equity interest in Pioneer Heritage as a subsidiary. On 28 February 2003, Hua Chiao, a wholly owned subsidiary of the Company, entered into an agreement (the "Principal Agreement") with United Merit Sdn. Bhd. ("United Merit") to dispose of its 65% equity interest in Pioneer Heritage for a consideration of approximately HK$85,280,000. The disposal of the 65% equity interest in Pioneer Heritage was completed on 28 July 2003. During the year ended 31 December 2003, the consideration of approximately HK$85,280,000 was partially settled by cash of approximately HK$8,484,000. Under a supplemental agreement entered into between Hua Chiao and United Merit and a written consent released by Pioneer Heritage both dated 28 July 2003, the balance of the consideration of approximately HK$69,187,000 was satisfied by way of set off against the indebtedness of approximately HK$69,187,000 due by the Group to Pioneer Heritage. The remaining balance of the consideration of approximately HK$7,609,000 was taken over by Pioneer Heritage from United Merit. The aforesaid balance due from Pioneer Heritage is unsecured, non-interest bearing and has no fixed terms of repayment.

In view of the uncertainty of the recovery of the outstanding balance in that there was no repayment in the outstanding balance which is unsecured and in the absence of adequate financial information in relation to Pioneer Heritage, the directors concluded that it is appropriate to make a full impairment on the outstanding net consideration receivables of approximately HK$7,609,000 (2004:HK$7,609,000). The impairment of approximately HK$7,609,000 on the consideration receivable was firstly recognised in 2004 as over the years the Group and Pioneer Heritage were unable to reach a consensus on the terms and schedule of repayment and that the amount under consideration was overdue.

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$71,027,000; Impairment: HK$68,256,000)

Included above is an amount of approximately HK$71,027,000 (2004: HK$71,027,000) due from Beijing Tianheng Property Development Joint Stock Company Limited ("Beijing Tianheng"), representing the outstanding net consideration receivable on disposal of the 80.1% interest in the registered capital of Kong Sheng Property Development Limited ("Kong Sheng"), a 90.1% subsidiary of the Company prior to the sale in 2003.

23. Consideration Receivables (Continued)

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$71,027,000; Impairment: HK$68,256,000) (Continued)

On 16 January 2003, Best Spot, a wholly owned subsidiary of the Company, entered into an agreement (the "First Transfer Agreement") with the then joint venture partner of Kong Sheng, Beijing Xicheng Housing Construction Development Company ("Beijing Xicheng") whereby Best Spot agreed to transfer 20.1% of the registered capital of Kong Sheng to Beijing Xicheng for a consideration of approximately HK$22,429,000 (the "First Transfer"). Best Spot was given an option to repurchase the said 20.1% interest of the registered capital of Kong Sheng for a consideration of approximately HK$25,121,000 within one year from the date of the First Transfer Agreement. The First Transfer was approved by Beijing Municipal Bureau of Commerce on 29 January 2003. Upon completion of the First Transfer, the then registered capital of Kong Sheng was owned as to 70% by Best Spot and as to 30% by Beijing Xicheng.

On 22 April 2003, Best Spot entered into an agreement (the "Second Transfer Agreement") with Beijing Tianheng whereby Best Spot agreed to transfer 60% of the registered capital of Kong Sheng to Beijing Tianheng for a consideration of approximately HK$67,290,000 (the "Second Transfer"). Best Spot was given an option to repurchase the said 60% interest of the registered capital of Kong Sheng for a consideration of approximately HK$75,364,000 within one year from the date of the Second Transfer Agreement. The Second Transfer (together with a transfer of 30% of the registered capital of Kong Sheng owned by Beijing Xicheng to Beijing Tianheng) was subsequently approved by Beijing Municipal Bureau of Commerce on 16 June 2003. The then registered capital of Kong Sheng was owned as to 10% by Best Spot and as to 90% by Beijing Tianheng. Upon completion of the First and Second Transfers resulting in the disposal of 80.1% interest in Kong Sheng, the Group's investment in the 10% interest in Kong Sheng was accounted for as short term investment in accordance with the Group's accounting policy.

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

23. Consideration Receivables *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$71,027,000; Impairment: HK$68,256,000) (Continued)

Pursuant to a settlement agreement dated 10 May 2004 (the "Settlement Agreement") entered into between Best Spot and Beijing Tianheng, Beijing Tianheng agreed to pay an aggregate amount of approximately HK$89,719,000 to Best Spot in respect of the First and Second Transfers and refund an aggregate amount of approximately HK$93,458,000 to Best Spot in respect of the total advance development costs paid by Best Spot up to the date of the Second Transfer under a property development contract. On the other hand, Best Spot agreed to compensate Beijing Tianheng an aggregate amount of approximately HK$106,215,000 in respect of losses incurred by Beijing Tianheng as a result of Best Spot's defaults in paying the predetermined advance development costs under several property development contracts. The repayment of the net balance of approximately HK$76,962,000 is scheduled as follows:

(i) HK$5,935,000 within 60 days after the Guoco Properties Agreement coming into effect (the "First Payment");

(ii) HK$18,691,000 within three months from the date the Guoco Properties Agreement being approved by the original approving authority in the PRC and the new business licence of Kong Sheng showing that Beijing Tianheng and Guoco Properties are the joint venture parties is being issued (the "Second Payment"); and

(iii) HK$52,336,000 within 30 working days from the date on which Beijing Tianheng has completed the "seven connected and one levelling (七通一平)" and all the demolition work in respect of the property development project held by Kong Sheng as referred to in the Settlement Agreement has been completed.

During the year ended 31 December 2004, a sum of approximately HK$5,935,000, representing the First Payment, was received by the Group.

The Second Payment due from Beijing Tianheng was originally due for repayment in January 2005, which is within three months from the date Guoco Properties Agreement being approved by the original approving authority in the PRC on 29 September 2004 and the new business licence of Kong Sheng being issued. However, in 2005, Beijing Tianheng was in negotiation with Guoco Properties in respect of the basis of loss allocation as a consequence of changing the construction plan of the property development in Xicheng District, Beijing, the PRC. It was agreed to defer the settlement of Guoco Properties' consideration payable to Beijing Tianheng pending the outcome of the loss allocation between the parties. Consequently, Beijing Tianheng also deferred the Second Payment to the Group until at such time when final agreement is reached between Beijing Tianheng and Guoco Properties.

23. Consideration Receivables *(Continued)*

(b) Disposal of 80.1% interest in Kong Sheng, a subsidiary, and amount due from Beijing Tianheng (Receivable: HK$71,027,000; Impairment: HK$68,256,000) (Continued)

Up to 31 December 2005, a sum of approximately HK$5,935,000 (2004: HK$5,935,000), representing the First Payment was received by the Group. Subsequent to the balance sheet date, a further amount of approximately HK$2,771,000 was received. 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. In view of the uncertainty of the recovery of the outstanding balance in that there was default in repayment of the outstanding balance which is unsecured, and in that the balance remained outstanding up to the date of approval of the financial statements, the directors concluded that in the absence of any financial information in relation to Beijing Tianheng, it is appropriate to make a full impairment on the consideration receivable of approximately HK$68,256,000 (2004: Nil).

On the other hand, pursuant to a revocable deed of assignment (the "Deed of Assignment") entered into between Best Spot and Public Bank (Hong Kong) Limited ("Public Bank") dated 20 November 2004, the Group agreed to assign RMB6,000,000 (equivalent to approximately HK$5,607,000) from its right, title and interest in the aforesaid net balance of approximately HK$76,962,000 to Public Bank as collateral of the outstanding bank borrowings together with the interest thereon and the litigation expenses due to Public Bank. However, Beijing Tianheng delayed the repayments for the reason as mentioned above. Up to the date of approval of the financial statements, Public bank has not received any payment from Beijing Tianheng. As at 31 December 2005, the outstanding bank borrowings, interest thereon and litigation expenses due to Public Bank were approximately HK$3,779,000 (note 29(b)(iv)), HK$309,000 and HK$279,000 respectively.

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

Included above is an amount of approximately HK$7,652,000 (2004: 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 HK11,215,000. 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.

23. 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) (Continued)*

In view of the uncertainty of the recovery of the outstanding balance in that there was default in repayment of the net consideration receivable which is unsecured, and in light of the fact that the balance remained outstanding up to the date of approval of the financial statements and in the absence of any financial information in relation to Beijing Tianheng, the directors concluded that it is appropriate to make a full impairment on the consideration receivable of approximately HK$7,652,000 (2004: Nil).

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

	The Group	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**7,609**	–
Charge for the year		
– amount due from Pioneer Heritage *(note (a))*	**–**	7,609
– amount due from Beijing Tianheng *(note (b))*	**68,256**	–
– amount due from Beijing Tianheng *(note (c))*	**7,652**	–
At 31 December	**83,517**	7,609

24. Property Development

	The Group	
	2005	2004
	HK$'000	*HK$'000*
At net realisable value		
Property under development for sale	**–**	2,188

(a) Property under development for sale is situated on the land held under long leases in Malaysia.

24. Property Development *(Continued)*

(b) During 2005, the Group experienced financial difficulties and was not financially capable of completing the property under development for sale. As a result, the development work was suspended. In the opinion of the directors, the property is of nil value to the Group and it is appropriate to write down the carrying amount of property under development for sale to nil. Up to the date of approval of the financial statements, the Group does not have any plan to resume the development work.

(c) No borrowing costs were capitalised as cost of property development during the years ended 31 December 2005 and 2004.

(d) The amount of property development recognised as an expense during the year is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Carrying amount of property development sold	**102**	8,268
Write down of property development	**2,080**	–
	2,182	8,268

(e) Property development is expected to be recovered within one year.

25. Trade and Other Receivables

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade receivables *(note (a))*	**–**	396	**–**	70
Other receivables *(note (b))*	**13**	1,853	**–**	61
Prepayments and deposits	**86**	146	**83**	–
Tax recoverable *(note (c))*	**–**	62	**–**	–
Amount due from an associate *(note (d))*	**315**	123	**–**	–
	414	2,580	**83**	131

25. Trade and Other Receivables *(Continued)*

(a) Trade receivables

	The Group	
	2005	2004
	HK$'000	*HK$'000*
More than 1 month but within 3 months	**–**	237
More than 3 months but within 12 months	**73**	47
Over 1 year	**14,864**	14,404
	14,937	14,688
Less: Impairment	**(14,937)**	(14,292)
	–	396

The Group allows a credit period normally ranging from 14 days to 90 days to its trade customers.

As at 31 December 2005, trade receivables of the Group of approximately HK$14,937,000 (2004: HK$14,292,000) were determined to be impaired and full provision had been made, in light of the fact that these trade receivables were long overdue for over one year as at the balance sheet date without any settlement during the year and remained outstanding, and/or were due from debtors with financial difficulties.

25. *Trade and Other Receivables (Continued)*

(a) Trade receivables *(Continued)*

No cash deposits had been placed by the related trade debtors with the Group (2004: Nil).

Movements of provision for impairment losses are analysed as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
At 1 January	**14,292**	14,325
Charge for the year	**645**	–
Write-offs *	**–**	(33)
At 31 December	**14,937**	14,292

* In 2004, the directors concluded to write off an amount of approximately HK$33,000 against provision for impairment losses in light of the bankruptcy of the debtor.

(b) Other receivables

In 2005, the directors concluded that it is appropriate to make an impairment of approximately HK$4,450,000 (2004: HK$3,106,000) on other receivables of the Group, of which approximately HK$1,344,000 (2004: HK$671,000) was charged to the income statement for the year ended 31 December 2005, in light of the fact that some of the other receivables were long outstanding for over one year as at the balance sheet date without any settlement during the year and remained outstanding and that some other receivables were due from debtors with financial difficulties. In 2004, the directors concluded to write off the other receivables of approximately HK$71,000, in view of the bankruptcy of the debtor.

(c) Tax recoverable

The amount represents tax recoverable at 31 December 2004 in relation to Hong Kong profits tax and is refunded in full to the Group during the year ended 31 December 2005.

25. Trade and Other Receivables *(Continued)*

(d) Amount due from an associate

The amount due from Aset Nusantara Development Sdn. Bhd., is unsecured, interest-free and has no fixed terms of repayment.

(e) All of the trade and other receivables are expected to be recovered within one year.

26. Pledged Deposits

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

At 31 December 2005, the pledged deposits carried interest at the rate of 2.75% (2004: 3.7%) per annum.

27. Cash and Cash Equivalents

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and deposit with banks, denominated in				
– Hong Kong dollars	**31**	819	**3**	3
– Singapore dollars	**8**	11	**–**	–
– Malaysian Ringgit	**43**	32	**–**	–
Cash and cash equivalents in the balance sheets	**82**	862	**3**	3
Bank overdrafts *(note 29)*	**–**	(3,540)		
Cash and cash equivalents in the consolidated cash flow statement	**82**	(2,678)		

Deposits with banks are interest bearing at prevailing market rates.

28. Trade and Other Payables

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Trade payables *(note (a))*	**4,000**	4,609	**–**	–
Accrued charges *(note (b))*	**12,254**	11,027	**7,444**	5,592
Other payables *(note (c))*	**–**	–	**4,088**	–
Provision for long service payments to employees	**190**	190	**190**	190
Interest payables	**5,962**	2,813	**5,559**	2,062
Deposits received from ex-tenants	**127**	229	**–**	–
Amount due to a shareholder *(note (d))*	**1,127**	60	**–**	–
Amounts due to related companies *(note (e))*	**229**	157	**–**	–
Amounts due to directors *(note (f))*	**1,509**	678	**–**	–
	25,398	19,763	**17,281**	7,844

(a) Trade payables

The following is an ageing analysis of trade creditors as of the balance sheet date:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
More than 3 months but within 6 months	**877**	35
More than 6 months but within 12 months	**–**	236
Over 1 year	**3,123**	4,338
	4,000	4,609

28. *Trade and Other Payables (Continued)*

(b) Accrued charges

Included in accrued charges of the Group and of the Company is a sum of approximately HK$311,000 (2004: HK$437,000) representing accrued salaries and directors' fee due to the Company's directors. An analysis of accrued salaries and directors' fee is as follows:

	The Group and the Company	
	2005	2004
	HK$'000	*HK$'000*
Mr. Ku Suen Fai	**231**	120
Mr. Ip Man Tin, David	**40**	–
Mr. Sin Wai Chiu, Joseph	**40**	–
Mr. Kong Li Jer	**–**	182
Mr. Fai Cheong Hau (deceased)	**–**	135
	311	437

(c) Other payables

The amount represents the financial obligations of the Company in respect of the guarantee issued by the Company in favour of Pubic Bank for banking facilities granted to Xswim Technology, a non-wholly owned subsidiary of the Company. Xswim Technology defaulted the repayment to Public Bank and Public Bank claimed against the Company under guarantee given by the Company. In the opinion of the directors, it is probable that an outflow of economic benefits will be required by the Company to settle its financial obligations. Accordingly, an amount of approximately HK$4,088,000, consisting of bank borrowings of approximately HK$3,779,000 and interest thereon of approximately HK$309,000 due by Xswim Technology to Public Bank, was provided for by the Company during the year ended 31 December 2005 (2004: Nil). Further details of the banking borrowings of Xswim Technology and the litigation against the Company are set out in note 29(b)(iv) and note 38(c) respectively.

(d) Amount due to a shareholder

The amount due to Kong Sun Enterprise Sdn. Bhd., a substantial shareholder of the Company, is unsecured, interest-free and has no fixed terms of repayment.

28. Trade and Other Payables *(Continued)*

(e) Amounts due to related companies

The amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment. An analysis of amounts due to related companies is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Equal Gain Sdn. Bhd. ("Equal Gain")	**158**	157
Pioneer Heritage, an investee company of the Group (see *note 21*)	**71**	–
	229	157

Kong Fa Holding Limited, a controlling shareholder of the Company, held 100% interest in Equal Gain.

(f) Amounts due to directors

The amounts due to directors are unsecured, interest-free and have no fixed terms of repayment. An analysis of amounts due to directors is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Mr. Kong Li Szu	**1,337**	677
Mr. Kang Li Jer	**172**	1
	1,509	678

(g) All of the trade and other payables are expected to be settled within one year.

29. Bank and Other Borrowings

At 31 December 2005, the bank and other borrowings were repayable as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Within 1 year or on demand				
– bank overdrafts	**–**	3,540	**–**	3,540
– bank borrowings	**12,683**	24,763	**8,904**	13,247
– other borrowings	**17,721**	14,750	**17,721**	14,750
	30,404	43,053	**26,625**	31,537
After 2 years but within 5 years				
– other borrowings	**1,800**	–	**–**	–
	32,204	43,053	**26,625**	31,537

At 31 December 2005, the bank and other borrowings were secured as follows:

	The Group		The Company	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts *(note 27)*				
– secured *(note (a))*	**–**	3,540	**–**	3,540
Bank borrowings				
– secured *(note (b))*	**9,973**	24,261	**6,194**	12,745
– unsecured *(note (c))*	**2,710**	502	**2,710**	502
	12,683	24,763	**8,904**	13,247
Other borrowings				
– secured *(note (d))*	**13,700**	13,700	**13,700**	13,700
– unsecured *(note (e))*	**5,821**	1,050	**4,021**	1,050
	19,521	14,750	**17,721**	14,750
	32,204	43,053	**26,625**	31,537

29. 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 entity to which they relate:

	The Group		The Company	
	2005	2004	**2005**	2004
	'000	*'000*	***'000***	*'000*
United States Dollars	US$484	US$484	–	–

(a) Secured bank overdrafts

At 31 December 2004, the Group's and the Company's bank overdrafts of approximately HK$3,540,000 bore interest at the higher of 1.5% per annum over the best lending rate quoted by the bank or 1.5% per annum over Hong Kong Interbank Offered Rate ("HIBOR"). The bank overdrafts were secured by the following:

– mortgage over certain investment properties of the Group with the carrying amount of approximately HK$11,500,000 at 31 December 2004; and

– assignment of rental income over the said investment properties mentioned above.

The bank overdrafts were repaid in full during the year ended 31 December 2005.

29. *Bank and Other Borrowings* *(Continued)*

(b) Secured bank borrowings

(i) *Industrial and Commercial International Capital Limited ("ICIC")*

At 31 December 2005, the Group's and the Company's bank borrowings of approximately HK$6,194,000 (2004: HK$6,399,000) bear interests at 4.25% (2004: 4.25%) per annum over prime rate quoted by ICIC. The bank borrowings are secured by pledge of approximately 596,052,000 ordinary shares of HK$0.10 each of the Company owned by a shareholder, Kong Fa Holding Limited, and personal guarantee executed by Mr. Kong Li Szu, the Company's director.

In addition, since the shares of the Company have been suspended for trading with effect from 9:30 a.m. on 17 June 2004, the directors are not able to determine whether the Company are in compliance with the minimum requirement under the agreement of a loan facility granted to the Company in respect of the fair value of the pledged securities.

In 2003, the Company defaulted the repayments of the borrowings due to ICIC. As a consequence, on 20 July 2004, an action was commenced by ICIC against the Company for the immediate full repayment of the outstanding borrowings together with interest thereon, cost and/or the relief. Further details are set out in note 38(a).

(ii) *DBS Bank (Hong Kong) Limited ("DBS")*

At 31 December 2004, the Group's and the Company's bank borrowings of approximately HK$6,346,000 bore interest at the prime rate quoted by DBS. The bank borrowings were secured by the following:

- mortgage over certain investment properties of the Group with the carrying amount of approximately HK$3,988,000 at 31 December 2004. During the year ended 31 December 2005, the said investment properties were disposed of by the Group. Upon disposal of the said investment properties, the bank borrowings were classified as unsecured bank borrowings under note 29(c).

- assignment of rental income over the said investment properties mentioned above; and

- corporate guarantees executed by two former subsidiaries of the Company. The Group disposed of these former subsidiaries in 2004.

29. Bank and Other Borrowings *(Continued)*

(b) Secured bank borrowings *(Continued)*

(ii) DBS Bank (Hong Kong) Limited ("DBS") (Continued)

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 38(b).

(iii) At 31 December 2004, the Group's bank borrowings of approximately HK$7,737,000 bore interest at the higher of 0.5% per annum over the best lending rate quoted by the bank or 0.5% per annum over HIBOR. The bank borrowings were secured by the following:

- mortgage over certain investment properties of the Group with the carrying amount of approximately HK$11,500,000 at 31 December 2004;
- assignment of rental income over the said investment properties mentioned above; and
- corporate guarantee executed by the Company.

The bank borrowings were repaid in full during the year ended 31 December 2005.

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

At 31 December 2005, the Group's bank borrowings of approximately HK$3,779,000 (2004: HK$3,779,000) bears interest at 8% (2004: 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 23(b)); and
- corporate guarantee executed by the Company.

29. *Bank and Other Borrowings* *(Continued)*

(b) Secured bank borrowings *(Continued)*

(iv) 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. Further details are set out in note 38(c).

(c) Unsecured bank borrowings

DBS

At 31 December 2005, the Group and the Company had bank borrowings of approximately HK$2,710,000 (2004: HK$502,000) due to DBS, of which approximately HK$502,000 (2004: HK$502,000) bears interest at 26.4% (2004: 26.4%) per annum and approximately HK$2,208,000 (2004: Nil) bear interest at the prime rate quoted by DBS. The two former subsidiaries of the Company issued guarantees in favour of DBS in respect of these bank borrowings.

(d) Other borrowings, secured

At 31 December 2005, the Group's and the Company's other borrowings of approximately HK$13,700,000 (2004: HK$ 13,700,000) due to a financial institution bears interest at 15% (2004: 15%) per annum and are secured by the following:

(i) personal guarantees from the Company's directors, Mr. Kong Look Sen (deceased), Mr. Kong Li Jer and Mr. Kong Li Szu;

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

(iii) charge over all the issued share capital of Best Spot. Best Spot previously held 90.1% interest of the registered capital of Kong Sheng. During the year ended 31 December 2003 and 2004, the Group disposed of 80.1% and 10% respectively interest of the registered capital of Kong Sheng, details of which are set out in note 23(b).

In July 2003, the Group failed to repay in full the other borrowings in accordance with the repayment schedule. In addition, according to the loan agreement, the Group should obtain prior written consent from the financial institution for the disposal of Kong Sheng. However, no such prior written consent was obtained in respect of the disposal. Up to the date of approval of the financial statements, no action has been taken by the financial institution in respect of the non-compliance.

29. *Bank and Other Borrowings (Continued)*

(e) Other borrowings, unsecured

(i) At 31 December 2005, the Group's and the Company's other borrowings of approximately HK$1,050,000 (2004: HK$1,050,000) due to an independent third party are interest-free and have no fixed terms of repayment.

(ii) At 31 December 2005, the Group's other borrowings of approximately HK$1,800,000 (2004: Nil) due to an independent third party bears interest at 1% over the prime lending rate quoted by The Hongkong and Shanghai Banking Corporation Limited. The borrowings are repayable in April 2008.

(iii) *A potential investor*

At 31 December 2005, the Group's and the Company's other borrowings of approximately HK$2,971,000 (2004: Nil) due to an independent third party (the "Potential Investor") are interest-free and secured by corporate guarantees executed by Kong Fa Holding Limited ("Kong Fa"), a controlling shareholder of the Company, and Kong Sun Enterprises Sdn. Bhd. ("KSE"), a substantial shareholder of the Company. Mr. Kong Li Jer, a director of the Company, is a director and a shareholder of Kong Fa and KSE. Mr. Kong Li Szu, a director of the Company, is a director and a shareholder of Kong Fa.

Pursuant to the agreement dated 13 April 2005 entered into between the Company and the Potential Investor, the Potential Investor grants a credit facility of HK$5,000,000 to the Company and has the right to require the Company to immediately repay the then outstanding borrowings if the Company cannot resume trading in its shares in the Stock Exchange within 180 days from 13 April 2005. On 10 October 2005, the Company and the Potential Investor entered into a supplemental agreement, by which the Potential Investor has the right to require the Company to immediately repay the then outstanding borrowings if the Company cannot resume trading in its shares in the Stock Exchange within 180 days from 10 October 2005.

In 2006, the Group defaulted the repayments of the borrowings due to the Potential Investor. As a consequence, on 13 September 2006, an action was commenced by the Potential Investor against the Company for the immediate full repayment of the outstanding borrowings together with costs. Further details are set out in note 38(d).

29. *Bank and Other Borrowings* *(Continued)*

(f) 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 2005, the Group and the Company had defaulted payment of principal of approximately HK$26,383,000 and approximately HK$22,604,000 respectively (2004: HK$42,003,000 and HK$30,487,000 respectively) and interest payables of approximately HK$5,869,000 and approximately HK$5,559,000 respectively (2004: HK$2,813,000 and HK$2,062,000 respectively). These amounts have been classified as current liabilities. An analysis of defaulted borrowings and interest thereon is as follows:

	The Group		**The Company**	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Principal				
– bank overdrafts	**–**	3,540	**–**	3,540
– bank borrowings	**12,683**	24,763	**8,904**	13,247
– other borrowings	**13,700**	13,700	**13,700**	13,700
	26,383	42,003	**22,604**	30,487
Interest payables	**5,869**	2,813	**5,559**	2,062
	32,252	44,816	**28,163**	32,549

30. Obligations under Finance Leases

The Group

	2005		2004	
	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
Within one year	19	24	6	7
After 1 year but within 2 years	–	–	6	7
After 2 years but within 5 years	–	–	9	12
	–	–	15	19
	19	24	21	26
Less: total future interest expenses		(5)		(5)
Present value of lease obligations		19		21

The Group leases office equipment under finance leases expiring five years. At the end of the lease term, the Group has the option to purchase the leased equipment at a price deemed to be a bargain purchase option. None of the leases includes contingent rentals. At the balance sheet date, the net book value of the equipment held under finance leases of the Group was nil (2004: Nil).

During the year ended and at 31 December 2005, the Group defaulted in the payment of the finance lease rentals in respect of the capital element of approximately HK$4,000 and interest element of approximately HK$1,000. As a result, the Group was charged penalty interest 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$9,000 and interest element of approximately HK$3,000 originally repayable after 1 year but within 2 years at 31 December 2005 have been reclassified under current liabilities. Subsequent to the balance sheet date, the Group repaid in full the obligations under finance leases.

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

31. Income Tax in the Balance Sheet

(a) Current taxation

Tax payable of approximately HK$48,000 (2004: HK$48,000) in the consolidated balance sheet represents provision for Hong Kong profits tax for the prior years.

(b) Deferred tax assets and liabilities recognised

The components of deferred tax (assets)/liabilities recognised in the consolidated balance sheet and the movements during the year are as follows:

	The Group		
	Depreciation allowances in excess of the related depreciation	**Tax losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Deferred tax arising from:			
At 1 January 2004	674	(674)	–
Charged/(credited) to income statement	(211)	211	–
At 31 December 2004 and 1 January 2005	463	(463)	–
Charged/(credited) to income statement	(463)	463	–
At 31 December 2005	–	–	–

(c) Deferred taxation not recognised

At the balance sheet date and for the year, the Group has not recognised deferred tax assets in respect of tax losses of approximately HK$140 million (2004: HK$130 million) as it is not probable that future taxable profits against which the tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

32. Capital and Reserves

(a) The Group

	Share capital	Share premium	Capital redemption reserve	General reserve	Special reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2004	256,116	329,049	20	18,000	9,329	341	(403,309)	209,546	–	209,546
Effect of retrospective adjustments upon change in accounting policies *(note 4(a)(iv))*	–	–	–	–	–	–	–	–	221	221
At 1 January 2004, as restated	256,116	329,049	20	18,000	9,329	341	(403,309)	209,546	221	209,767
Loss for the year	–	–	–	–	–	–	(29,962)	(29,962)	(201)	(30,163)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	–	383	–	383	–	383
At 31 December 2004, as restated	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	20	179,987

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

32. Capital and Reserves *(Continued)*

(a) The Group *(Continued)*

	Share capital	Share premium	Capital redemption reserve	General reserve	Special reserve	Exchange reserve	Accumulated losses	Total	Minority interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2005, as previously reported	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	–	179,967
Effect of retrospective adjustments upon change in accounting policies *(note 4(a)(iv))*	–	–	–	–	–	–	–	–	20	20
At 1 January 2005, as restated	256,116	329,049	20	18,000	9,329	724	(433,271)	179,967	20	179,987
Loss for the year	–	–	–	–	–	–	(99,735)	(99,735)	(6)	(99,741)
Exchange difference on translation of financial statements of overseas subsidiaries	–	–	–	–	–	8	–	8	–	8
At 31 December 2005	256,116	329,049	20	18,000	9,329	732	(533,006)	80,240	14	80,254

Note:

In 2003, the investment property revaluation reserve was fully utilised and the loss resulting from the changes in the fair value of the investment properties in 2003 and 2004 was recognised directly in the income statement for the years ended 31 December 2003 and 2004 respectively. As a result, the investment property revaluation reserve was carried at nil as at 31 December 2003 and 2004. Accordingly, comparative information has not been restated upon adoption of HKAS 40.

32. Capital and Reserves *(Continued)*

(b) The Company

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2004	256,116	329,049	20	(383,798)	201,387
Loss for the year	–	–	–	(25,115)	(25,115)
At 31 December 2004 and 1 January 2005	256,116	329,049	20	(408,913)	176,272
Loss for the year	–	–	–	(135,453)	(135,453)
At 31 December 2005	256,116	329,049	20	(544,366)	40,819

(c) Share capital

Authorised and issued share capital

	2005		2004	
	Number of shares '000	**Share capital HK$'000**	Number of shares '000	Share capital HK$'000
Authorised:				
Ordinary shares of HK$0.10 each	**4,000,000**	**400,000**	4,000,000	400,000
Issued and fully paid:				
Ordinary shares of HK$ 0.10 each				
At 1 January and 31 December	**2,561,167**	**256,116**	2,561,167	256,116

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

32. Capital and Reserves *(Continued)*

(d) Nature and purpose of reserves

(i) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the Hong Kong Companies Ordinance.

(ii) General reserve

In opinion of the directors, the details of the nature and purposes of the general reserve are not readily available. Failure to disclose such information is a departure from the requirement as stipulated under paragraph 76(b) of HKAS 1 *Presentation of Financial Statements*.

(iii) Special reserve

The special reserve represents adjustment relating to the Group's share of post acquisition profits and reserves in an investee company which became an associate of the Group in 2003.

(iv) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy 3(r).

(e) Distributability of reserves

As at 31 December 2005 and 2004, the Company had no reserve available for distribution to equity holders of the Company.

(f) Accumulated losses retained by associates of the Group

Included in the accumulated losses as at 31 December 2005 of the Group is a loss of HK$25,638,000 (2004: a loss of HK$17,807,000) retained by associates of the Group.

33. *Equity Compensation Benefits*

The Company has a share option scheme which was adopted on 30 June 2003, whereby the Board of Directors (the 'Board') of the Company are authorised to grant options to selected participants, including employees and directors of any company in the Group, to subscribe for shares of the Company. The exercise price of the options is determined by the Board at the time of grant, and shall be the highest of the nominal value of the shares, the closing price of the shares at the date of grant and the average closing price of the shares for the five business days immediately preceding the date of grant. The vesting period, the exercisable period and the number of shares subject to each option are determined by the Board at the time of grant. No option was granted by the Company under the scheme since its adoption.

34. *Notes to the Consolidated Cash Flow Statement*

(a) Disposal of a subsidiary in 2005

In July 2005, the Group disposed of a subsidiary, namely Kong Sun Telecoms Limited, which was engaged in the business of property investment in Hong Kong, to an independent third party (the "Purchaser") for a consideration of HK$160,000, which was set off against the indebtedness due by the Group to the Purchaser. The net assets of the subsidiary at the date of disposal were as follows:

	2005
	HK$'000
Net assets disposed of:	
Investment properties	**178**
Other receivables	**1**
Other payables	**(11)**
	168
Loss on disposal of a subsidiary	**(8)**
Total consideration	**160**
Satisfied by:	
Amount set off against accrued charges and other payables due by the Group to the Purchaser	**160**

There was no contribution from the subsidiary disposed of during the year to the Group's turnover in 2005 and 2004. The subsidiary disposed of during the year contributed loss for the year of approximately HK$2,000 (2004: HK$9,000) up to the date of disposal.

34. Notes to the Consolidated Cash Flow Statement *(Continued)*

(b) Disposal of subsidiaries in 2004

In 2004, the Group disposed of certain subsidiaries. The net assets of the subsidiaries at the date of disposal were as follows:

	2004
	HK$'000
Net assets disposed of:	
Amounts due from the Group	3,445
Cash and bank balances	4
Other payables	(7)
	3,442
Waiver of amounts due from the Group	(3,445)
	(3)
Gain on disposal of subsidiaries	3
Total consideration	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	2004
	HK$'000
Cash and bank balances disposed of	(4)

The subsidiaries disposed of during the year had no significant impact on the Group's turnover or loss for the year ended 31 December 2004.

34. *Notes to the Consolidated Cash Flow Statement* *(Continued)*

(c) Major non-cash transactions

(i) During the year ended 31 December 2004, repayment of certain accrued charges of approximately HK$959,000 was satisfied by setting off against the amount due from a debtor under a Deed of Assignment dated 23 July 2004.

(ii) During the year ended 31 December 2004, the First Payment in respect of the disposal of Kong Sheng of approximately HK$5,935,000 was settled by setting off against the indebtedness due by the Group to the Company's director, Mr. Kong Li Szu.

(iii) During the year ended 31 December 2004, repayment of bank and other borrowings approximately HK$8,169,000 was satisfied by part of the sales proceeds from disposal of investment properties.

35. *Employee Retirement Benefits*

Hong Kong

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. Contributions to the plan vest immediately.

Other than Hong Kong

The Group's subsidiaries in Singapore and Malaysia participate in defined contribution schemes managed by the respective local governments in these countries. Contributions based on a percentage, ranging from 12% to 13%, of the employee's salaries and bonus, if applicable, and were charged to the income statement as incurred. The maximum contributions by the subsidiaries for each employee for the Group's subsidiaries in Singapore are fixed by the Singapore government at S$585 (equivalent to approximately HK$2,755) per month for monthly salaries and bonus payment. The employees of the Group's subsidiaries in Singapore and Malaysia are also required to contribute 20% and 11% of their gross salaries and bonus, if applicable to such fund respectively. The local governments are responsible for the entire pension obligations payable to retired employees.

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

36. Financial Instruments

The Group's financial assets include cash and cash equivalents, loan and interest receivables, consideration receivables, and trade and other receivables. The Group's financial liabilities include bank and other borrowings, trade and other payables.

The Group does not have nor has issued financial instruments for trading purposes. Exposure to credit, interest, liquidity and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

(a) Credit risk

The Group's credit risk is primarily attributable to loan and interest receivables, consideration receivables, and trade and other receivables. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all debtors requiring credit over a certain amount.

At the balance sheet date, the maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. The Group has no significant concentrations of credit risk.

(b) Interest rate risk

The Group's exposure to fair value and cash flow interest risks is normal. The Group is exposed to interest rate risk in relation to its loans and borrowings. In order to minimise the risks, management has closely monitored the exposures.

The interest rates and terms of repayment of the Group's bank and other borrowings are disclosed in note 29.

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realizable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

36. Financial Instruments *(Continued)*

(d) Foreign currency risk

As most of the Group's monetary assets and liabilities are denominated in Hong Kong Dollars and Malaysian Ringgit, and the Group conducted its business transactions principally in Hong Kong Dollars and Malaysian Ringgit, all of which were relatively stable during the year under review, the Group experiences only immaterial exchange rate fluctuations. The Group considers that as the exchange rate risk of the Group is not significant, the Group did not employ any financial instruments for hedging purposes.

(e) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2005 and 2004.

(i) Cash and cash equivalents, loan and interest receivables, consideration receivables, trade and other receivables, and trade and other payables

The carrying values approximate their fair values because of the short maturities of these items.

(ii) Loans and borrowings

The carrying amount of loans and borrowings approximates their fair values based on the borrowing rates currently available for loans and borrowings with similar terms and maturities.

(f) Economic risk

The Group's operations may be adversely affected by significant political, economic and social uncertainties in Malaysia. Although the Government of Malaysia has been pursuing economic reform policies for the past years, no assurance can be given that the Malaysia Government will continue to pursue such policies or that such policies may not be significantly altered.

(g) Business risk

A substantial portion of the Group's operations is conducted in Hong Kong and Malaysia. This includes risks associated with, among others, the political, economic and legal environment in Hong Kong and Malaysia.

Notes to the Financial Statements

For the year ended 31 December 2005
(Expressed in Hong Kong Dollars)

36. Financial Instruments *(Continued)*

(h) Liquidity risks

The Group maintains a prudent financial policy and ensures that it maintains sufficient cash resources to meet its liquidity requirements.

(i) Sensitivity analysis

In managing interest rate and foreign currency risks the Group aims to reduce the impact of short-term fluctuations on the Group's loss. Over the longer term, however, permanent changes in foreign exchange and interest rates would have an impact on consolidated loss.

At 31 December 2005, it is estimated that a general increase of one percentage point in interest rates would increase the Group's loss before taxation by approximately HK$281,000 (2004: HK$420,000) so far as the effect on interest-bearing financial instruments is concerned.

37. Operating Lease Commitments

At 31 December 2005, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Within 1 year	**72**	–

Apart from these leases, the Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to two years, with an option to renew the lease when all terms are renegotiated. None of the leases includes contingent rentals.

38. *Litigation*

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

As explained in noted 29(b)(i), in 2003, the Group defaulted the repayments of the borrowings due to ICIC. ICIC formally demanded the Company for the immediate repayment of the borrowings in full together with accrued interest thereon. However, the Company was not able to make full repayment to ICIC. As a consequence, on 20 July 2004, an action was commenced by ICIC against the Company as 1st defendant for the immediate full repayment of the outstanding borrowings of approximately HK$6,499,000 together with interest thereon of approximately HK$447,000, cost and/or the relief. The action was also made against the Company's director, Mr. Kong Li Szu as 2nd defendant under a guarantee given by the director in favour of ICIC in respect of the borrowings granted to the Company. This case was heard by The High Court of The Hong Kong Special Administrative Region on 8 November 2004 and judgement was issued in favour of ICIC. The Company was required to repay the said bank borrowings in full together with the interest thereon and to bear the litigation expense. At 31 December 2005, the outstanding bank borrowings, interest thereon and litigation expense due to ICIC were approximately HK$6,194,000 (note 29(b)(i)), HK$866,000 and 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) DBS Bank (Hong Kong) Limited ("DBS")

As explained in note 29 (b)(ii), in 2004, 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 2005, the outstanding bank borrowings and interest thereon due to DBS were approximately HK$2,710,000 (note 29(c)) and HK$617,000 respectively.

38. Litigation *(Continued)*

(b) DBS Bank (Hong Kong) Limited ("DBS") *(Continued)*

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

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

As explained in noted 29(b)(iv), in 2003, Xswim Technology, a non-wholly owned subsidiary of the Company, defaulted the repayments of certain bank borrowings due to Public Bank. Public Bank formally demanded Xswim Technology for the immediate repayment of the borrowings in full together with accrued interest thereon. However, Xswim Technology was not able to make full repayment to Public Bank. As a consequence, on 11 February 2004, an action was commenced by Public Bank against Xswim Technology as 1st defendant for the immediate full repayment of approximately US$725,000 (equivalent to approximately HK$5,655,000) together with interest thereon, costs and/or other relief. The action was also made against the Company as 2nd defendant and the Company's director, Mr. Kong Li Szu ("Mr. Kong") as 3rd defendant under guarantees given by the Company and Mr. Kong in favour of Public Bank in respect of the bank borrowings granted to Xswim Technology. This case was heard by The High Court of The Hong Kong Special Administrative Region on 31 May 2004 and judgement was issued in favour of Public Bank. Xswim Technology was required to repay the said bank borrowings in full together with the interest thereon and to bear the litigation expense. Up to 31 December 2005, the Group repaid to Public Bank an amount of approximately HK$2,459,000, consisting of bank borrowings of approximately HK$1,876,000 and interest of approximately HK$583,000. At 31 December 2005, the outstanding bank borrowings, interest thereon and litigation expense due to Public Bank were approximately HK$3,779,000 (note 29(b)(iv)), HK$309,000 and HK$279,000 respectively.

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

Pursuant to a revocable deed of assignment entered into between Best Spot and Public Bank dated 20 November 2004 as referred to note 23(b), the Group agreed to assign RMB6,000,000 (equivalent to approximately HK$5,607,000) from its right, title and interest in the Group's consideration receivable 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.

38. Litigation *(Continued)*

(d) A potential investor

As explained in note 29(e)(iii) to the financial statements, pursuant to the agreements dated 13 April 2005 and 10 October 2005, an independent third party (the "Potential Investor") granted the Company a credit facilities of HK$5,000,000 which are secured by corporate guarantees executed by shareholders of the Company, Kong Fa Holdings Limited and Kong Sun Enterprises Sdn. Bhd., and had the right to require the Company to immediately repay the then outstanding borrowings, if the Company cannot resume trading in its shares in the Stock Exchange within 180 days from 10 October 2005. In April 2006, when the trading in the shares of the Company in the Stock Exchange was not resumed, the potential investor demanded the full repayment by the Company of the then outstanding borrowings of approximately HK$3,136,000 but the Company defaulted the repayments.

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

(e) Mr. Cheung Yik Wang

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

38. Litigation *(Continued)*

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

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

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

(f) Ex-landlord

On 30 March 2004, an action was commenced by the landlord of the office premises of the Group (the "Ex-landlord") against Pacpo Hong Kong, a wholly owned subsidiary of the Company, for overdue rental, building management and miscellaneous fees, together with arrears of rental up to the date of delivery of vacant possession of the said office premises, interests, cost and/or other relief of approximately HK$207,000. This case was heard by The High Court of The Hong Kong Special Administrative Region on 21 June 2004 and judgement was issued in favour of the Ex-landlord. Accordingly, the Group is liable to pay the Ex-landlord approximately HK$712,000. However, the Group only settled approximately HK$226,000 in aggregate to the Ex-landlord. In December 2004, the Group and the Ex-landlord entered into a settlement arrangement, under which the Group agrees to pay the outstanding debts of approximately HK$486,000 by 14 monthly instalments, the first of which is to be paid in January 2005. In the meantime, the landlord shall withhold any action to enforce the judgement. However, the Group has defaulted the settlement of the aforesaid amount. Up to the date of approval of the financial statements, no action has been taken by the Ex-landlord in respect of the default in repayments of the unsettled amount.

A full provision of the unsettled amount of approximately HK$486,000 has been made in these financial statements.

38. Litigation *(Continued)*

(g) Koffman Securities

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

(i) Kong Sun Resources would make good and pay to Koffman Securities of those Consideration Shares sold at a market price not less than HK$0.375 per share in the period of thirty six months commencing from 10 June 2002 so that Koffman Securities would receive not less than HK$0.375 per Consideration Share; and

(ii) Kong Sun Resources granted Koffman Securities an option to repurchase the Premises for a consideration of HK$21,000,000 at any time within a period of five years commencing from 10 May 2002, as security for the due and punctual performance of the alleged obligation mentioned in (i) above.

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

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

38. *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. A full provision of HK$850,000 has been accounted for in these financial statements.

(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, consisting of approximately HK$138,000 in relation to the obligation of the Company up to 31 December 2005 and approximately HK$50,000 arising after 31 December 2005, 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.

An amount of approximately HK$138,000 (2004: HK$138,000) was provided for by the Company during the year ended 31 December 2005, of which approximately HK$100,000 was in relation to valuation fee and approximately HK$38,000 in relation to interest and litigation costs up to 31 December 2005.

39. Contingent Liabilities

(a) Long service payments

At the balance sheet date, 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 (2004: HK$243,000) as at 31 December 2005. The contingent liability has arisen because at the balance sheet, a number of 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.

A partial provision of approximately HK$190,000 (2004: HK$190,000) has been recognised in these financial statements in respect of such possible payments 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.

(b) 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 (2004: HK$17,000,000) in favour of banks for the banking facilities granted to certain subsidiaries of the Company. The total facilities utilised by the subsidiaries at 31 December 2005 amounted to approximately HK$4,088,000 (2004: HK$12,267,000). At 31 December 2005, the sum of approximately HK$4,088,000, representing the total facilities utilised by the subsidiaries at 31 December 2005, was accounted for in the financial statements of the Company for the year ended 31 December 2005. Further details are set out in note 28(c) to the financial statements.

39. Contingent Liabilities *(Continued)*

(b) Corporate guarantees in respect of banking facilities granted to the subsidiaries *(Continued)*

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	
	2005	2004	**2005**	2004
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Guarantees of banking facilities granted to subsidiaries	**–**	–	**–**	12,267

(c) Champ Capital Limited

Pursuant to an exclusive franchisee agreement dated 1 January 2003 ("the Franchisee Agreement") entered into between Xswim Technology, a non-wholly owned subsidiary of the Company, and Champ Capital Limited (the "Franchisee"), Xswim Technology granted the Franchisee an exclusive right to trade the computer products and office equipment of Xswim Technology in Guangdong Province and Beijing, the PRC, for a period from 1 January 2003 to 1 April 2007. In addition, Xswim Technology agreed to buy back the underlying franchise licence for HK$15,000,000 upon termination of the Agreement, both in the case of normal or early termination, and to spend HK$1,000,000 as merchandising assistance in promoting the products of Xswim Technology.

As the Franchisee had breached the Agreement to perform its duty, inter alia, to trade the products of Xswim Technology in Guangdong Province and Beijing, the PRC, Xswim Technology had terminated the Franchisee Agreement with effect from 28 November 2003. Although there were no clauses stipulated in the Franchisee Agreement that the breach would discharge the obligations of Xswim Technology to buy back the franchise licence and to pay the merchandising assistance, the directors are of the opinion that the Group had no legal or financial obligations to buy back the franchise licence and to pay the merchandising assistance when the Franchisee failed to discharge its obligation by, inter alia, trading the products of Xswim Technology in Guangdong Province and Beijing, the PRC. No action has been taken by the Franchisee in respect of the abovementioned clause up to the date of approval of the financial statements.

With the advices by the Company's external legal adviser, the directors are of the opinion that the Franchisee would not be entitled or able to (i) exercise the option to resell the underlying franchise licence to the Group, or (ii) demand the Group payment of the merchandising assistance in promoting the products of Xswim Technology, on the ground that the Franchisee Agreement was likely to be void and not enforceable by the courts of Hong Kong, at which the Franchisee Agreement was construed. Accordingly, no provision for commitment or loss for the franchise licence and merchandising assistance has been accounted for in these financial statements.

40. Material Related Party Transactions

In addition to the transactions or balances disclosed elsewhere in these financial statements, the Group entered into the following material related party transactions.

(a) Administrative management fee income from a substantial shareholder, Kong Sun Enterprise Sdn. Bhd ("KSE").

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Administrative management fee income from KSE	**–**	363

This fee income was related to management services provided by the Group to KSE, a substantial shareholder of the Company. The administrative fee income was charged based on the costs incurred by the Group plus a mark-up.

(b) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	The Group	
	2005	2004
	HK$'000	*HK$'000*
Short-term employee benefits	**474**	772
Post-employment benefits	**–**	12
	474	784

Total remuneration is included in "staff costs" (see note 7(b)).

41. 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;

41. Non-Adjusting Post Balance Sheet Events *(Continued)*

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

– 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.

41. *Non-Adjusting Post Balance Sheet Events (Continued)*

(c) Acquisition of subsidiaries *(Continued)*

(i) Life-like plant business (Continued)

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

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

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

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

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

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

41. Non-Adjusting Post Balance Sheet Events (Continued)

(c) Acquisition of subsidiaries *(Continued)*

(i) Life-like plant business (Continued)

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.

41. Non-Adjusting Post Balance Sheet Events *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

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

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

– Lead Power being satisfied with the results of the due diligence review to be conducted;

– all necessary consents and approvals required to be obtained on the part of the Vendors in respect of the CK Agreement and the transactions contemplated thereby having been obtained;

41. Non-Adjusting Post Balance Sheet Events *(Continued)*

(c) Acquisition of subsidiaries *(Continued)*

(ii) Property investment (Continued)

- 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.

(d) Winding-up petition

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

42. *Comparative Figures*

Certain comparative figures have been adjusted or re-classified as a result of the changes in accounting policies, details of which are disclosed in note 4. In addition, certain comparative figures have been reclassified to conform with the current year's presentation.

43. *Immediate and Ultimate Controlling Party*

At 31 December 2005, the directors consider the immediate parent and ultimate controlling party of the Group to be Kong Fa Holding Limited, which is incorporated in the British Virgin Islands. This entity does not produce financial statements available for public use.

44. *Accounting Estimates and Judgements*

(a) Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the debtors to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the debtors' financial position were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment for non-current assets

If circumstances indicate that the net book value of a non-current asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with HKAS 36 *Impairment of Assets*. The carrying amounts of non-current assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

44. Accounting Estimates and Judgements (Continued)

(c) Write down of property development

If the costs of property development fall below their net realisable values, write down in value of property development is recognised. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. These estimates require judgement as to the marketing costs and the expected costs to completion of the properties, the legal and regulatory framework and general market conditions.

(d) Valuation of buildings and land lease prepayments

In accordance with HKAS 17 *Leases*, the Group's leasehold interest in buildings and land are separated into leasehold buildings and leasehold land. The Group determined the fair value of the leasehold interest in buildings and land being held under an operating lease at the time the lease was first entered into by the Group, by reference to all readily available information. If the fair value of buildings or land, at the time the lease was first entered into by the Group, were to be higher than the estimated, the depreciation of buildings or amortisation of land could be lower than the estimated.

(e) Deferred taxation

Deferred tax assets are recognised for unused tax losses carried forward to the extent it is probable that future taxable profits will be available against which the unused tax losses can be utilised, based on all available evidence. In assessing the probability, both positive and negative evidence is considered, including whether it is more likely than not that the operations will have future taxable profits over the period in which the deferred tax assets are deductible or utilised. Recognition primarily involves judgement regarding the future financial performance of the particular legal entity or tax group in which the deferred tax asset has been recognised. A variety of other factors are also evaluated in considering whether there is convincing evidence that it is probable that some portion or all of the deferred tax assets will ultimately be realised, such as the existence of taxable temporary differences, group relief, tax planning strategies and the periods in which estimated tax losses can be utilised. The carrying amount of deferred taxation and related financial models and budgets are reviewed at each balance sheet date. The Group uses all readily information including estimates based on reasonable and supportable assumptions and projections of revenue and amount of operating costs in assessing the probability. In addition, actual outcomes in terms of future taxable profits may be higher or lower than estimated at the balance sheet date, which would affect the profit or loss in the future years. In addition, actual outcomes in terms of future taxable profits may be higher or lower than estimated at the balance sheet date, which would affect the profit or loss in future years.

(Expressed in Hong Kong Dollars)

45. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2005

Up to the date of issue of these financial statements, the HKICPA has issued the following amendments, new standards and interpretations which are not yet effective for the accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

	Effective for accounting periods beginning on or after
HKFRS 6, Exploration for evaluation of mineral resources	1 January 2006
HK(IFRIC) 4, Determining whether an arrangement contains a lease	1 January 2006
HK(IFRIC) 5, Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds	1 January 2006
HK(IFRIC) 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
Amendments to HKAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2007
Amendments to HKAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments, as a consequence of the Hong Kong Companies (Amendment) Ordinance 2005, to:	
– HKAS 1, Presentation of financial statements	1 January 2006
– HKAS 27, Consolidated and separate financial statements	1 January 2006
– HKFRS 3, Business combinations	1 January 2006
HKFRS 7, Financial instruments: disclosures	1 January 2007
Amendment to HKAS 1, Presentation of financial statements: capital disclosures	1 January 2007

45. Possible Impact of Amendments, New Standards and Interpretations Issued but not yet Effective for the Annual Accounting Period ended 31 December 2005 *(Continued)*

In addition, the Hong Kong Companies (Amendment) Ordinance 2005 came into effect on 1 December 2005 and would be first applicable to the Group's financial statements for the period beginning 1 January 2006.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. So far it has concluded that the adoption of HKFRS 6 and HK(IFRIC) 5 and the amendments to HKAS 1, HKAS 27 and HKFRS 3 made as a result of the Hong Kong Companies (Amendment) Ordinance 2005 are not applicable to any of the Group's operations and that the adoption of the rest of them is unlikely to have a significant impact on the Group's results of operations and financial position.

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							
	2005		2004		2003		2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued/ Discontinuing operations		
TURNOVER	221	–	12,269	60	33,626	89,932	258,109	181,954
PROFIT/(LOSS) BEFORE TAXATION	(99,741)	–	(30,372)	373	(171,254)	(169,543)	(130,762)	21,992
Taxation	–	–	(164)	–	(1,264)	–	(1,619)	(1,018)
PROFIT/(LOSS) FOR THE YEAR	(99,741)	–	(30,536)	373	(172,518)	(169,543)	(132,381)	20,974
ATTRIBUTABLE TO:								
Equity holders of the Company	(99,735)	–	(30,335)	373	(172,760)	(168,323)	(133,856)	17,155
Minority interests	(6)	–	(201)	–	242	(1,220)	1,475	3,819
	(99,741)	–	(30,536)	373	(172,518)	(169,543)	(132,381)	20,974

ASSETS AND LIABILITIES AND MINORITY INTERESTS

	At 31 December							
	2005		2004		2003		2002	2001
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
	Continuing operations	Discontinued operations	Continuing operations	Discontinued operations	Continuing operations	Discontinued/ Discontinuing operations		
TOTAL ASSETS	137,923	–	242,872	–	262,161	19,101	838,344	841,536
TOTAL LIABILITIES	(57,669)	–	(62,885)	–	(71,495)	–	(222,204)	(213,595)
MINORITY INTERESTS	(14)	–	(20)	–	(221)	–	(77,414)	(89,440)
	80,240	–	179,967	–	190,445	19,101	538,726	538,501