

If you are in any doubt as to any aspect of this offer or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or otherwise transferred all your shares in International Capital Network Holdings Limited, you should at once hand this document and the accompanying forms of acceptance and transfer to the purchaser or to the bank or stockbroker or other agent through whom the sale was effected for transmission to the purchaser. This document should be read in conjunction with the accompanying forms of acceptance and transfer, the contents of which form part of the terms of the Offer contained herein.

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Voluntary Conditional Offer

by



Somerley Limited
on behalf of



KOFFMAN SECURITIES LIMITED

(Incorporated in Hong Kong with limited liability)

for all the issued shares of

International Capital Network Holdings Limited

(Incorporated in the Cayman Islands with limited liability)

ACCEPT THE OFFER

The procedures for acceptance of the Offer are set out on pages 24 and 25 and in Appendix I of this document and in the accompanying forms of acceptance and transfer. Acceptances of the Offer must be received by the Agent, Tengis Limited, by no later than 4:00 p.m. on Monday, 9th December, 2002 or such later date as the Offeror may announce.

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EXPECTED TIMETABLE

2002

Offer opens	Thursday, 10th October
Latest date of posting the Offeree Document (<i>Note 1</i>)	on or before Thursday, 24th October
Latest time for acceptance of the Offer	4:00 p.m. on Monday, 9th December
First closing date of the Offer (<i>Note 2</i>)	Monday, 9th December
Latest time by which the Offer could be declared unconditional in all respects (<i>Note 3</i>)	Monday, 30th December

2003

Latest time for posting of remittances to Shareholders who accept the Cash Option by the First Closing Date (<i>Note 4</i>)	Thursday, 9th January
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Latest time for despatching share certificates for Kong Sun Shares to Shareholders who accept the Securities Exchange Option by the First Closing Date (<i>Note 5</i>)	Thursday, 9th January
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Notes:

1. Under the Takeovers Code, ICN is required to post the Offeree Document to Shareholders within 14 days of posting of the Offer Document (unless the Executive consents to a later date).
2. In accordance with the Takeovers Code, except with the consent of the Executive, the Offer may not become or be declared unconditional as to acceptances after midnight on the 60th day after the day this document was posted. Accordingly, unless the Offer has become or been declared unconditional as to acceptances, the Offer will be closed on Monday, 9th December, 2002.
3. In the event that the Offer has not been declared or become unconditional in all respects on or before 30th December, 2002, being 21 days after the First Closing Date (or such later date as the Executive may consent to), the Offer will lapse.
4. Remittance in respect of the consideration payable for the ICN Shares tendered under the Offer will be posted to Shareholders accepting the Cash Option within 10 days after the later of (i) the date of receipt by the Agent of all the relevant documents to render the acceptance under the Offer complete and valid; and (ii) the date when the Offer becomes or is declared unconditional.
5. Share certificates for Kong Sun Shares will be despatched to Shareholders accepting the Securities Exchange Option within 10 days after the later of (i) the date of receipt by the Agent of all the relevant documents to render the acceptance under the Offer complete and valid; and (ii) the date when the Offer becomes or is declared unconditional.

DEFINITIONS

In this document, unless the context otherwise requires, the following expressions have the following meanings:

“Agent”	Tengis Limited, 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, an agent appointed by the Offeror responsible for share registration relating to the Offer
“Announcement”	the announcement dated 5th September, 2002 made by the Offeror regarding the terms and conditions of the Offer
“Capital Ace”	Capital Ace Holdings Limited, a subsidiary of Digital World
“Cash Option”	the cash option offered to the Shareholders under the Offer on the terms set out herein
“Cash Option Price”	being HK\$0.03 per ICN Share
“CCASS”	the Central Clearing and Settlement System established and operated by HKSCC
“Digital World”	Digital World Holdings Limited, a company incorporated in Bermuda, the shares of which are listed on the Main Board of the Stock Exchange
“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission or any delegate of the Executive Director
“First Closing Date”	9th December, 2002, being the 60th day after the despatch of the Offer Document
“Form of Acceptance”	the forms of acceptance and transfer in respect of the Offer which accompany this document
“GEM”	the Growth Enterprise Market of the Stock Exchange
“GEM Listing Rules”	the Rules Governing the Listing of Securities on GEM
“HK\$”	Hong Kong Dollars, the lawful currency of Hong Kong
“HKSCC”	Hong Kong Securities Clearing Company Limited
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“ICN”	International Capital Network Holdings Limited, a company incorporated in the Cayman Islands, the shares of which are listed on GEM
“ICN Group”	ICN and its subsidiaries
“ICN Interim Report”	the interim report 2002 of ICN dated 15th March, 2002
“ICN Prospectus”	the prospectus of ICN dated 20th November, 2001 relating to the placing and public offer of ICN Shares
“ICN Quarterly Report”	the third quarterly report 2002 of ICN dated 31st May, 2002
“ICN Share(s)”	share(s) of HK\$0.01 each in capital of ICN
“IPO”	initial public offering
“Koffman Financial”	Koffman Financial Group Limited, a company incorporated in Hong Kong with limited liability, the principal activity of which is investment holding
“Kong Sun”	Kong Sun Holdings Limited, a company incorporated in Hong Kong on 13th June, 1955, the shares of which are listed on the Main Board of the Stock Exchange
“Kong Sun Shares”	shares of HK\$0.10 each in capital of Kong Sun
“Latest Practicable Date”	8th October, 2002, being the latest practicable date prior to the printing of this document for ascertaining certain information referred to in this document
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Madam Fu”	Madam Fu Chong Lap Hoi, Katy
“Mr. Yu”	Mr. Yu Shu Kuen
“Offer”	the voluntary conditional offer to be made by Somerley on behalf of the Offeror to acquire all the issued ICN Shares at HK\$0.03 each in cash, with a securities exchange option on the basis of one Kong Sun Share for eight ICN Shares
“Offer Document”	this document setting out the details of the Offer, and the accompanying forms of acceptance and transfer, to be sent to Shareholders

DEFINITIONS

“Offeree Document”	the response document in respect of the Offer to be issued by ICN to Shareholders in accordance with the Takeovers Code
“Offeror”	Koffman Securities Limited, a company incorporated in Hong Kong on 5th March, 1996 with limited liability
“Peace Hill”	Peace Hill Securities Company Limited, a company incorporated in Hong Kong with limited liability and a wholly-owned subsidiary of Kong Sun and the principal activity of which is investment holding
“PRC”	the People’s Republic of China
“Securities Exchange Option”	the securities exchange option offered to the Shareholders under the Offer on the terms set out herein
“Shareholders”	holders of ICN Shares
“SMEs”	small- and medium-sized enterprises, being manufacturing firms employing less than 100 persons and non-manufacturing firms employing less than 50 persons
“Sommerley”	Sommerley Limited, an investment adviser and exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Takeovers Code”	the Hong Kong Code on Takeovers and Mergers

LETTER FROM THE OFFEROR



KOFFMAN SECURITIES LIMITED

(Incorporated in Hong Kong with limited liability)

Directors:

Mr. Yu Shu Kuen

Mr. Benjamin Fu Hau Fai

Mr. Kong Li Szu

Mr. Chan Yau Kit, Eric

Principal office and place of business

in Hong Kong:

13th Floor, Ying Kong Mansion

2-6 Yee Wo Street

Causeway Bay

Hong Kong

10th October, 2002

To the Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ICN SHARES

We are writing to you to explain why we believe it is in your interests to accept the Offer, full details of which are contained in this document of which this letter forms part.

When you look carefully at what has been happening to your investment under the direction of ICN's present management, we believe you will agree that the Offer is fair and that you should accept it.

REASONS FOR YOU TO ACCEPT THE OFFER

1. Has your management shown that it is capable of managing ICN?

According to the ICN Interim Report, the actual business progress of ICN had missed the business objectives as stated in the ICN Prospectus for the period from 13th November, 2001 to 31st January, 2002. Certain business activities, in particular, in the areas of expansion of the alliance network and enhancement of www.hkicn.com have either not been fulfilled or delayed. In addition, the use of proceeds from the IPO of ICN for the period from 13th November, 2001 to 31st January, 2002 has been revised. It is the intention of the Offeror to review the operations and financial position of the ICN Group if it becomes the controlling shareholder of the ICN Group.

LETTER FROM THE OFFEROR

Set out below is the comparison of the business objectives with actual business progress for the period from 13th November, 2001 to 31st January, 2002 extracted from the ICN Interim Report and the respective Offeror's comments:

According to the business objectives as stated in the ICN Prospectus	Actual business progress	Offeror's comments
Business development		
1. Apply for registration as a securities dealer and a money lender under the Securities Ordinance and Money Lenders Ordinance respectively	Money lenders' licence was obtained in January 2002. The application for securities dealer is in the process of preparation.	Partially fulfilled
2. Commence feasibility study on setting up a regional representative office in Singapore	Senior management has visited Singapore and performed preliminary assessment.	In progress
3. Commence feasibility study on setting up a representative office in Shanghai or Shenzhen, the PRC	Senior management has visited Shanghai and Shenzhen, the PRC and performed preliminary assessment.	In progress
4. Recruit additional staff	Selected candidates have been arranged for interviews by the senior management. No additional staff have been recruited during the six months ended 31st January, 2002.	In progress
5. Development of a wider range of financial services	Money lenders' licence was obtained in January 2002. Participation in underwriting of several IPO projects.	Fulfilled

LETTER FROM THE OFFEROR

According to the business

objectives as stated in the ICN Prospectus

Actual business progress

Offeror's comments

Expansion of alliance network

- | | | |
|--|--|---------------|
| 1. Form two additional alliances in Hong Kong and the PRC | During the period, no suitable strategic alliance candidates has been found. | Not fulfilled |
| 2. Provide one training course for alliance members in the form of a seminar | None | Not fulfilled |

Enhancement of *www.hkicn.com*

- | | | |
|---|---|-------------|
| 1. Continue to enhance the functions, features and contents of <i>www.hkicn.com</i> | In progress | In progress |
| 2. Commence development of an artificial intelligence search engine | Delayed to the fourth quarter of the financial year ending 31st July, 2002. | Delayed |
| 3. Commence development of a real-time interactive medium for online seminar, training and conference | Delayed to the fourth quarter of the financial year ending 31st July, 2002. | Delayed |
| 4. Launch simplified Chinese character version of <i>www.hkicn.com</i> | Delayed to the fourth quarter of the financial year ending 31st July, 2002. | Delayed |

Improvement of public awareness

- | | | |
|--|---|---------------------|
| 1. Organise seminars in the PRC regarding business development and corporate advisory services | A seminar relating to the listing on the Hong Kong Stock Exchange is in preparation. | In progress |
| 2. Publish newsletters or periodicals to promote the Group's business | Participation in congratulation advertisements of clients upon new listing of their shares on the Stock Exchange. | Partially fulfilled |

LETTER FROM THE OFFEROR

Set out below is the revised use of proceeds from issuance of new shares for the period from 13th November, 2001 to 31st January, 2002 extracted from the ICN Interim Report:

	Proposed <i>HK\$'000</i>	Actual <i>HK\$'000</i>
For further development of the Group's operation and to provide a wider range of financial services:		
• Setting up overseas representative offices/business information centers	600	150
• Recruit additional staff	600	10
• Development/provision of new financial services	3,800	3,400
For the expansion of the alliance network	500	200
For enhancement of <i>www.hkicn.com</i>	900	100
For the improvement of public awareness	600	100
	<hr/>	<hr/>
	7,000	3,960
	<hr/> <hr/>	<hr/> <hr/>

As set out in the comparison of business objectives with actual business progress above, out of the 13 business objectives for the period from 13th November, 2001 to 31st January, 2002 as set out in the ICN Prospectus, only one objective was fulfilled. 7 of them were either partially fulfilled or still in progress. The remaining 5 of them were either not fulfilled or delayed. In addition, the actual amount of proceeds used was less than expected. The reasons behind this as stated in the ICN Interim Report were that “because of the downturn of the outlook for the overall global economy, the Group continues to implement cost-control measures which have resulted in the actual spending incurred for the Group’s business activities being lower than envisaged in the prospectus of the Company dated 20th November, 2001.....”. If you look at this carefully, you will find that the comparison period covered only two and a half months from 13th November, 2001 to 31st January, 2002 which is a rather short period. The existing management did not seem to be able to deliver results for what they were supposed to do within such a short period. It seems that the existing management did not even have vision for a short time period. It casts grave doubts over the existing management’s ability to efficiently and effectively run ICN and contribute to the growth and development of the ICN Group in the longer term. The existing management are not doing their job effectively.

2. The numerous shareholders’ disputes have been drying up the resources of your company

As you are probably aware, there have been ongoing disputes among certain Shareholders over the past few months which reflect the differences between various of ICN’s shareholders. More recently, these disputes have resulted in the commencement of litigation against ICN by certain ICN Shareholders. ICN announced on 14th August, 2002 that a winding-up petition against ICN was presented to the Court and further announced on 17th September, 2002 that the hearing of the petition is fixed for 6th November, 2002. The Offeror believes that these disputes are a distraction to management which would hamper the growth and development of the ICN Group.

LETTER FROM THE OFFEROR

According to the ICN Quarterly Report, the loss attributable to shareholders increased to HK\$2,387,190 for the three months ended 30th April, 2002 from HK\$690,346 incurred in the comparable period in 2001. The directors of ICN claimed that the increase in losses was mainly due to the costs incurred in developing the ICN Group's business in markets both in Hong Kong and elsewhere and the legal and other fees incurred as a result of the requisition for a meeting of shareholders made by Capital Ace and Wise Express Assets Limited and their subsequent action in purporting to convene their own meeting and in investigating possible breaches of the Takeovers Code and the ownership of ICN. Accordingly, the Offeror considers the disputes among shareholders have caused an adverse effect on the performance of the ICN Group. It seems that the disputes are ongoing and it is likely that this will result in additional legal and other fees being incurred, which, we believe, will have an adverse effect on the value of your ICN Shares.

3. Has your management increased the value of your investment?

Since the listing of ICN Shares in November 2001, the ICN Shares have been trading at below the IPO offer price of HK\$0.84 for most of the time. Recently, the ICN Shares have been trading at around HK\$0.10, representing an approximately 88.1% discount to the IPO offer price of ICN Shares. During the same period, the Hang Seng Index has only dropped by less than 25%. Looking at these figures, they speak of a bad investment story. Worse still, even if you have some thoughts to "stop loss", you may experience difficulties in realizing your shareholding in ICN since the trading volume of the ICN Shares has been low. The Offer provides an exit for you to realize your shareholdings in ICN.

4. You are offered an opportunity to exchange your ICN Shares for shares in a profit making Main Board company if you wish

As you know, ICN is a company listed on GEM while Kong Sun is a company listed on the Main Board of the Stock Exchange. GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. ICN has proved such "investment risk". Since the listing of ICN Shares in November 2001, ICN Shares have been trading at below the IPO offer price of HK\$0.84 for most of the time. Recently, the ICN Shares were trading at around HK\$0.10. In addition, the results of ICN were a loss in its interim results for the six months ended 31st January, 2002. ICN remained in a loss making position during the three months ended 30th April, 2002. On the other hand, Kong Sun recorded substantial growth of 292% in unaudited net profit attributable to shareholders to approximately HK\$7.2 million for the six months ended 30th June, 2002 from approximately HK\$1.8 million for the comparable period in 2001.

Under the Offer, if you choose the Securities Exchange Option, you will receive Kong Sun Shares in exchange for your ICN Shares. You now have a chance to exchange your shares of a loss making GEM listed company for shares of a profit making (based on the latest interim result of Kong Sun) Main Board listed company.

ICN's recent record is poor and we believe that the future of ICN is unlikely to improve significantly under the existing management. When you consider the track record of your present management, you can reach only one conclusion: ICN needs new direction now. You should accept the Offer without delay.

LETTER FROM THE OFFEROR

REASONS FOR MAKING THE OFFER

On the basis of the business activities of ICN as described in the paragraphs headed “Information about ICN” in the letter from Somerley, the Offeror considers that with its securities brokerage business and wide customer base, it is confident that it and its directors and ultimate shareholders can assist the ICN Group in broadening the business network of the ICN Group if it becomes the controlling shareholder of ICN. The Offeror also considers that the Offer presents a good opportunity for it to expand its business in the financial services market in Hong Kong through ICN.

INTENTION OF THE OFFEROR

Continuation of business

It is the intention of the Offeror to maintain the existing principal business of ICN, and the Offeror has no intention of injecting any material assets or businesses into the ICN Group immediately after the Offer. The Offeror has no plan for any redeployment of fixed assets of ICN. The Offeror intends to hold its interest in ICN as a long term investment and at present, it does not intend to transfer the ICN Shares acquired under the Offer to any other person. It will also assist the board of ICN to review the business and operations of the ICN Group with a view to increasing the business activities and performance of the ICN Group.

Directors, management and employees

It is the intention of the Offeror that it will nominate new directors representing a majority in number of the members of the board of ICN upon successful completion of the Offer. The Offeror will consider what changes should be made to the existing management and staff structure of the ICN Group upon successful completion of the Offer.

Compulsory acquisition

The Offeror does not presently intend to apply the provisions of section 88 of the Companies Law (Revised), Chapter 22 of the Laws of the Cayman Islands to acquire compulsorily any ICN Shares for which the Offer is made but which have not been assented by the close of the Offer, but reserves the right to do so.

GENERAL

Your attention is drawn to the letter from Somerley and the additional information set out in the Appendices to the Offer Document.

Yours faithfully,
For and on behalf of
Koffman Securities Limited
Yu Shu Kuen
Managing Director

LETTER FROM SOMERLEY



Somerley Limited
Suite 3108, One Exchange Square
8 Connaught Place
Central
Hong Kong

10th October, 2002

To the Shareholders

Dear Sir or Madam,

VOLUNTARY CONDITIONAL OFFER BY SOMERLEY ON BEHALF OF THE OFFEROR TO ACQUIRE ALL THE ICN SHARES

INTRODUCTION

The Offeror announced on 5th September, 2002 that Somerley, on its behalf, would make a voluntary conditional general offer for all the issued shares of ICN.

This letter, Appendix I of the Offer Document of which this letter forms part and the Form of Acceptance together set out the terms and conditions of the Offer and certain related information. Your attention is drawn to the letter from the Offeror which is set out in the Offer Document immediately prior to this letter, and which sets out, among other things, the reasons for the Offer and the intention of the Offeror with regard to ICN.

THE OFFER

Somerley, on behalf of the Offeror, hereby offers to acquire, on the terms and subject to the conditions set out in the Offer Document and in the accompanying Form of Acceptance, all of the ICN Shares on the following basis (Shareholders can choose either one of the following options but not both):

1. Cash Option:

For each ICN Share HK\$0.03 in cash

2. Securities Exchange Option:

For every eight ICN Shares one Kong Sun Share

Shareholders can either accept the Cash Option or the Securities Exchange Option, but not a combination of both, in respect of the ICN Shares that are assented to the Offer by such Shareholders.

LETTER FROM SOMERLEY

The ICN Shares will be acquired by the Offeror fully paid and free from all liens, charges, pledges, options, encumbrances and any other third party rights or interests of any nature whatsoever and together with all rights, benefits, and entitlements attaching and accruing thereto as of the date of the Announcement and thereafter including the right to receive all dividends, rights and distributions declared, paid or made on or after the date of the Announcement (including any dividend which may be declared, paid or made by ICN in respect of the financial year ended 31st July, 2002).

Assuming full acceptance of the Offer and 320 million ICN Shares in issue (as set out in the ICN Interim Report), the maximum cash consideration to be paid by the Offeror will be HK\$9.6 million (in the case that all Shareholders elect for the Cash Option). The maximum number of Kong Sun Shares that will be transferred to the accepting Shareholders will be 40,000,000 Kong Sun Shares (in the case that all Shareholders elect the Securities Exchange Option), representing approximately 1.7% of the existing issued share capital of Kong Sun. The exact amount of Kong Sun Shares to be transferred will depend on the number of acceptances of the Offer that elect the Securities Exchange Option.

Conditions of the Offer

The Offer is subject to the following conditions:

- (i) the whole of the issued share capital of ICN continuing to be listed and dealt in on the Stock Exchange on the 21st day after the First Closing Date;
- (ii) there being no resolution, petition or order for the winding up of ICN or any member of the ICN Group (or if there is any of such resolution, petition or order for winding up, the withdrawal thereof) and no receiver having been appointed in respect of ICN or any member of the ICN Group or any part of the assets thereof on the 21st day after the First Closing Date;
- (iii) the Offeror receiving acceptances in respect of ICN Shares which together with ICN Shares held or acquired or agreed to be acquired by it and persons acting in concert with it before or during the Offer, will result in the Offeror and persons acting in concert with it holding more than 50% of the voting rights of ICN; and
- (iv) any necessary consent or approval (including approval in principle) of any applicable governmental or regulatory body having been obtained pursuant to the provisions of any ordinance, rules and regulations in Hong Kong and overseas.

In accordance with the Takeovers Code, except with the consent of the Executive, the Offer may not become or be declared unconditional as to acceptances after midnight on the 60th day after the day this document was posted. **Accordingly, the last day on which the Offer can become or be declared unconditional as to acceptances is 9th December, 2002.**

As set out in condition (iii) above, the Offer is conditional upon acceptances in respect of a minimum number of ICN Shares being received by the Offeror. The Offeror reserves the right to waive, in whole or in part, all or any of the above conditions, other than conditions (iii) and (iv). **Except with the consent of the Executive, all conditions must be fulfilled or waived or the Offer must lapse within 21 days of the First Closing Date of the Offer which is 30th December, 2002.**

LETTER FROM SOMERLEY

Regarding the Cash Option

Trading in the ICN Shares was suspended at the request of ICN from 12th August, 2002 and was resumed on 18th September, 2002. The Cash Option Price of HK\$0.03 per ICN Share represents a discount of approximately 70.6 % to the closing price of HK\$0.102 per ICN Share quoted on the Stock Exchange on 9th August, 2002, being the last trading day before the aforesaid suspension in trading of the ICN Shares on the Stock Exchange. The Cash Option Price also represents a 69.4% discount to the 10-days average closing price of HK\$0.098 per ICN Share ended on 9th August, 2002. In addition, the Cash Option Price represents a discount of 70.0% to the closing price of HK\$0.10 per ICN Share quoted on the Stock Exchange as at the Latest Practicable Date.

Assuming there are 320,000,000 ICN Shares in issue, based on HK\$0.03 per ICN Share, the Cash Option values the entire issued share capital of ICN at HK\$9.6 million.

Regarding the Securities Exchange Option

As at the Latest Practicable Date, the Offeror was interested in approximately 83,724,000 Kong Sun Shares, representing approximately 3.5% of the existing issued share capital of Kong Sun comprising 2,411,184,836 Kong Sun Shares. An aggregate of 40,000,000 Kong Sun Shares (representing approximately 1.7% of the existing issued share capital of Kong Sun) held by the Offeror have been deposited, free from all encumbrances, in an escrow account for the purpose of satisfying in full the Securities Exchange Option under the Offer. The 40,000,000 Kong Sun Shares subject to the Offer rank pari passu with all other existing issued Kong Sun Shares.

As at the date of the Announcement, the closing price of Kong Sun Shares as quoted on the Stock Exchange was HK\$0.25. On the basis of eight ICN Shares for one Kong Sun Share and the closing price of Kong Sun Shares as at the date hereof, the implied market value of Kong Sun Shares attaching to one ICN Share subject to the Offer would be approximately HK\$0.031.

As at the Latest Practicable Date, the closing price of Kong Sun Shares as quoted on the Stock Exchange was HK\$0.244. On the basis of eight ICN Shares for one Kong Sun Share and the closing price of Kong Sun Shares as at the date hereof, the implied market value of Kong Sun Shares attaching to one ICN Share subject to the Offer would be approximately HK\$0.031.

The highest and lowest closing prices of Kong Sun Shares as quoted on the Stock Exchange during the six-month period preceding the date of the Announcement and ending on the Latest Practicable Date were HK\$0.445 on 15th March, 2002 and HK\$0.236 on 18th September, 2002, respectively. On the basis of eight ICN Shares for one Kong Sun Share and the closing prices of Kong Sun Shares as at the dates hereof, the highest and lowest implied market values of Kong Sun Shares attaching to one ICN Share subject to the Offer would be approximately HK\$0.056 and HK\$0.030, respectively.

Other information

Based on the ICN Quarterly Report, there are no outstanding convertible securities, options or warrants issued by ICN. In the event that any convertible securities, options or warrants carrying rights in the share capital of ICN are later found to be in issue and/or outstanding, comparable offers will be made for them in compliance with the Takeovers Code.

LETTER FROM SOMERLEY

The Offeror and parties acting in concert with it do not own or have control, either directly or indirectly, over any ICN Shares. There have been no dealings in ICN Shares by the Offeror or parties acting in concert with it in the past six months.

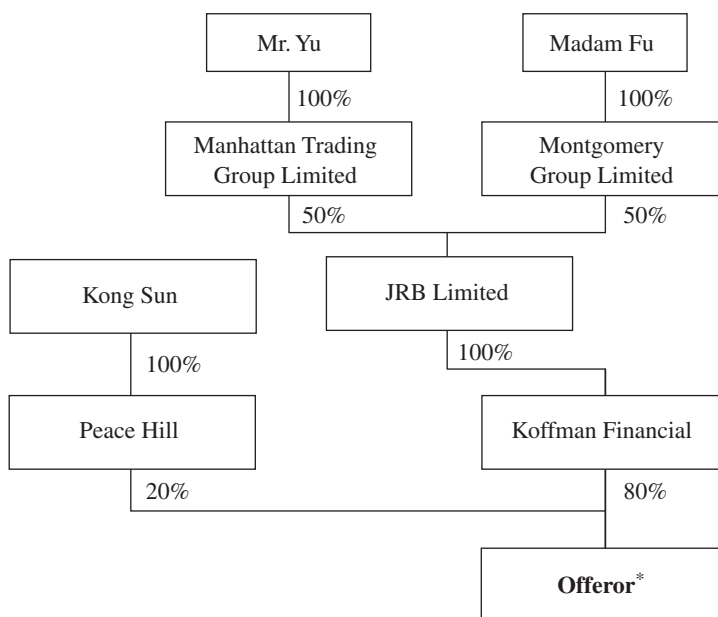
Somerley is satisfied that there are sufficient resources available to the Offeror to satisfy acceptance of the Offer in full. The Offeror intends to finance the Offer from a bank facility from Standard Chartered Bank in an aggregate amount of HK\$9.6 million (in the case of the Cash Option) and by transferring its Kong Sun Shares to Shareholders (in the case of the Securities Exchange Option). The Offeror does not expect the payment of interest on, repayment of or security for any liability will depend to any significant extent on the business of ICN.

The Offeror does not presently intend to apply the provisions of section 88 of the Companies Law (Revised), Chapter 22 of the Laws of the Cayman Islands to acquire compulsorily any ICN Shares for which the Offer is made but which have not been assented by the close of the Offer, but reserves the right to do so.

INFORMATION ABOUT THE OFFEROR

The Offeror is a company incorporated in Hong Kong on 5th March, 1996. It is a dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong). The principal activities of the Offeror include securities trading and brokerage. As shown in the chart below, the Offeror is owned as to 80% by Koffman Financial and as to 20% by Peace Hill, a wholly-owned subsidiary of Kong Sun. Koffman Financial is indirectly owned as to 50% by Mr. Yu and as to 50% by Madam Fu.

The following chart depicts the shareholding structure of the Offeror:



* The Offeror is interested in approximately 3.5% of the issued share capital of Kong Sun as at the Latest Practicable Date.

LETTER FROM SOMERLEY

The directors of the Offeror are Mr. Yu, Mr. Benjamin Fu Hau Fai (the son of Madam Fu), Mr. Kong Li Szu (a director of Kong Sun) and Mr. Chan Yau Kit, Eric.

Mr. Yu, aged 33, is a resident of Hong Kong. Mr. Yu has over 13 years of financial market experience. In 1996, Mr. Yu founded the business of the Offeror. Before this, Mr. Yu had worked in the investment banking field in Hong Kong for about 2 years and went on to start his own financial services business. Mr. Yu's interest in the Offeror is indirectly held through Manhattan Trading Group Limited, a private company incorporated in the British Virgin Islands, the principal activity of which is investment holding.

Madam Fu, aged 64, is a resident of Hong Kong. Madam Fu is a very experienced investor. She is the mother of Mr. Benjamin Fu Hau Fai, a director of the Offeror. Madam Fu is also a founding shareholder of the Offeror. Madam Fu's interest in the Offeror is indirectly held through Montgomery Group Limited, a private company incorporated in the British Virgin Islands, the principal activity of which is investment holding.

Mr. Benjamin Fu Hau Fai, aged 35, has over 8 years of financial market experience. He is the son of Madam Fu.

Mr. Kong Li Szu, aged 31, is a director of Kong Sun. Mr. Kong holds a bachelor's degree and a master's degree in Civil Engineering from Washington University and Stanford University respectively. He is well experienced in civil works and China investment and trades.

Mr. Chan Yau Kit, Eric, aged 54, is a resident of Hong Kong. Mr. Chan holds a bachelor's degree in arts from the University of Southern California. Mr. Chan has over 28 years of financial market experience.

The directors, chief executive, substantial shareholders or initial management shareholders of ICN as such persons were disclosed in the ICN Prospectus and ICN Interim Report are independent of, not connected with and not acting in concert with, the Offeror.

INFORMATION ABOUT KONG SUN

Principal activities

Kong Sun is principally engaged in (i) property development and investment in Hong Kong, PRC and Malaysia; (ii) environmental protection including combat pollution problem services, anti-flooding and waste pollutants detection and pollution monitoring; (iii) information technology including multimedia training, finance and corporation management and project matching and wireless broadband solution provider; and (iv) brokerage, investment advisory and money lenders.

LETTER FROM SOMERLEY

Financial results

Set out below is a summary of the unaudited interim results of the Kong Sun Group for the six months ended 30th June, 2002 and the unaudited consolidated net assets as at 30th June, 2002 extracted from the interim report of Kong Sun dated 19th September, 2002. In addition, the following includes a summary of the audited consolidated results of Kong Sun for the two years ended 31st December, 2001 and the consolidated net assets as at 31st December, 2001 and 31st December, 2000 extracted from the annual report of Kong Sun for the year ended 31st December, 2001:

	For the six months ended 30th June, 2002 (unaudited) HK\$'000	For the year ended 31st December, 2001 (audited) HK\$'000	For the year ended 31st December, 2000 (audited) HK\$'000
Turnover	134,791	143,366	39,430
Profit before tax	8,617	21,992	9,057
Net profit attributable to shareholders	7,234	17,155	7,024
Consolidated net assets	666,726	538,501	189,250
Consolidated net asset value per share	HK\$0.28 ¹	HK\$0.26 ²	HK\$0.32 ³

Notes:

1. Based on 2,411,184,836 Kong Sun Shares in issue as at 30th June, 2002.
2. Based on 2,055,184,836 Kong Sun Shares in issue as at 31st December, 2001.
3. Based on 588,003,571 Kong Sun Shares in issue as at 31st December, 2000.

Further information on the Kong Sun Group is set out in Appendix II to this document.

LETTER FROM SOMERLEY

Shareholding

As at the Latest Practicable Date, the authorised share capital of Kong Sun comprised 4,000,000,000 Kong Sun Shares and the total issued share capital comprised 2,411,184,836 Kong Sun Shares. All the Kong Sun Shares rank pari passu in all respects including as to dividends, voting rights and capital. On the basis of the shareholding in Kong Sun as at the Latest Practicable Date, the change of the shareholding in Kong Sun as a result of acceptance by all Shareholders of the Offer and if all Shareholders elect for the Securities Exchange Option will be as follows:

	Existing as at the Latest Practicable Date		After completion of the Offer if all Shareholders elect for the Securities Exchange Option	
	Kong Sun Shares	%	Kong Sun Shares	%
Kong Fa Holding Limited	1,029,600,042	42.7	1,029,600,042	42.7
Kong Sun Enterprise Sdn. Bhd.	393,375,794	16.3	393,375,794	16.3
Offeror	83,724,000	3.5	43,724,000	1.8
Public				
– Existing Kong Sun Shareholders	904,485,000	37.5	904,485,000	37.5
– Shareholders accepting the Offer who elect for the Securities Exchange Option	–	–	40,000,000	1.7
	<u>2,411,184,836</u>	<u>100.0</u>	<u>2,411,184,836</u>	<u>100.0</u>

Prospects

The directors of Kong Sun have stated their view on the prospects of Kong Sun in the interim report of Kong Sun for the six months ended 30th June, 2002 as follows:

“The global outlook remains unpredictable, with much depending on the speed and extent of a full recovery. However, conditions in the Asian market, particularly the PRC are expected to rally. As such, the bulk of the Kong Sun Group’s new investment is likely to be in the PRC.

While expansion of core businesses is the Kong Sun Group’s priority for the second half of 2002, the management will give equal emphasis to reviewing the existing portfolio to maintain the most efficient mix of activities. To this end, the management will seek to create additional synergies among different portfolios. The Kong Sun Group’s proposed introduction of an “intelligent living community” integrates advanced I.T. initiatives with property development, is a prime example.

Looking ahead, property development and investment will remain the Kong Sun Group’s core business and its contribution is expected to grow continuously. Another major growth area will be the environmental protection business as reflected in the winning of several new contracts by the Environmental Division subsequent to the six months ended 30th June, 2002.

In view of the sluggish finance sector, the Kong Sun Group will carefully reassess its portfolio in the finance business with an aim to enhance industry diversity. In addition, the Kong Sun Group will not only maintain a balanced growth strategy in its I.T. business but also will actively seek to tap the “intelligent building” market in the PRC given the immense potential within the sector. With solid market presence, the management is confident that the finance and I.T. businesses will take off once market conditions improve.

LETTER FROM SOMERLEY

To maximize portfolio returns, the Kong Sun Group will maintain an open attitude towards further investment opportunities. With well-defined expansion strategies and strong financial position, the management remains optimistic to the outlook in the second half of 2002.”

INFORMATION ABOUT ICN

Principal activities

The issued ICN Shares are listed on GEM. On the basis of the ICN Prospectus, the ICN Group is principally engaged in the provision of business development and corporate advisory services in Hong Kong to companies focusing on SMEs with significant growth potential. The ICN Group advises its clients on the formulation of business development strategies, performance improvement, corporate reorganizations, pre-IPO corporate management and other corporate finance advisory works and issues. The ICN Group also assists its clients in the evaluation of possible market opportunities and their business expansion.

Financial results

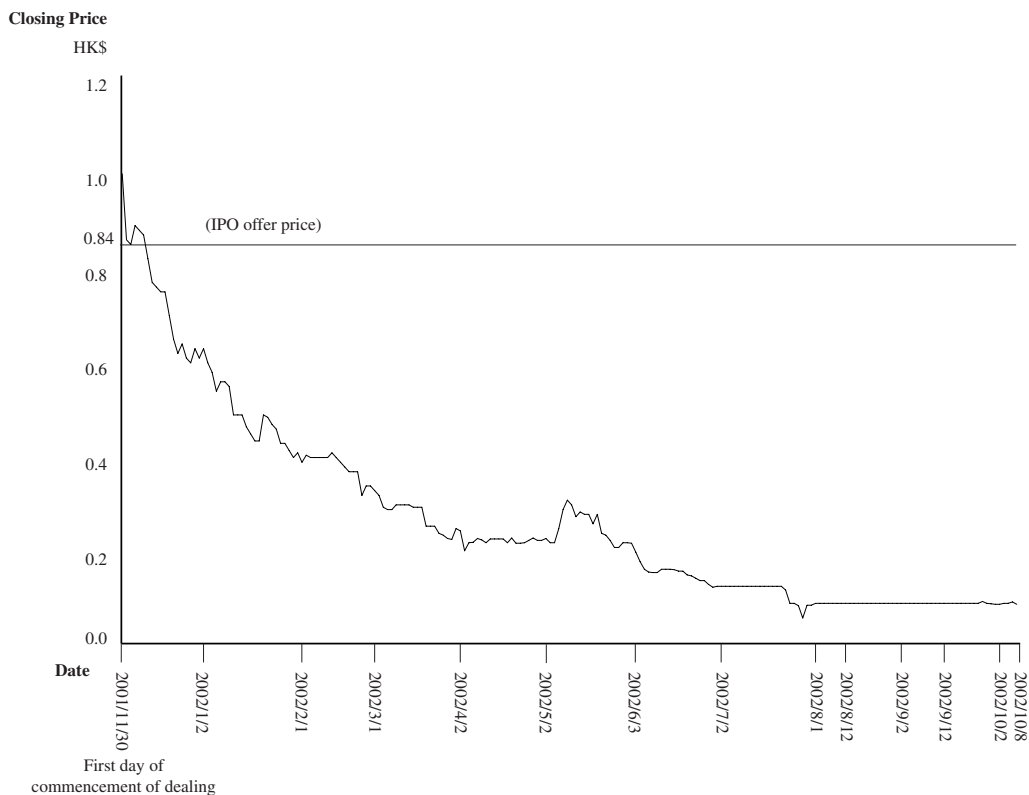
Set out below is a summary of ICN’s combined results for the year ended 31st July, 2001 extracted from the ICN Prospectus, the unaudited consolidated results for the six months ended 31st January, 2002 extracted from the ICN Interim Report, the unaudited consolidated results for the three months ended 30th April, 2002 extracted from ICN Quarterly Report, and the combined net assets of the ICN Group as at 31st July, 2001 extracted from the ICN Prospectus and the unaudited consolidated net assets of the ICN Group as at 31st January, 2002 extracted from the ICN Interim Report:

	Three months ended 30th April, 2002 (unaudited) <i>HK\$</i>	Six months ended 31st January, 2002 (unaudited) <i>HK\$</i>	For the year ended 31st July, 2001 (audited) <i>HK\$</i>
Turnover	1,112,226	2,354,056	5,019,991
Cost of services provided	<u>(555,000)</u>	<u>(1,029,000)</u>	<u>(288,000)</u>
Gross profit	557,226	1,325,056	4,731,991
Bank interest income	82,593	345,095	45,464
Loss on disposal of other investments	(50,277)	–	–
Administrative expenses	(2,961,126)	(2,233,223)	(2,302,230)
Amortisation of goodwill	<u>(15,606)</u>	<u>(31,212)</u>	<u>–</u>
Profit/(Loss) before taxation	(2,387,190)	(594,284)	2,475,225
Taxation	<u>–</u>	<u>–</u>	<u>(400,000)</u>
Profit/(Loss) attributable to shareholders	<u><u>(2,387,190)</u></u>	<u><u>(594,284)</u></u>	<u><u>2,075,225</u></u>
Net assets	<u><u>Not available</u></u>	<u><u>51,306,463</u></u>	<u><u>1,004,583</u></u>

LETTER FROM SOMERLEY

Share performance

The following chart depicts the share price movement of the ICN Shares from 30th November, 2001 (first day of commencement of dealing on GEM) to the Latest Practicable Date.



Source: Bloomberg

Since the listing of ICN Shares in November 2001, the ICN Shares have been trading below the IPO offer price of HK\$0.84 for most of the time. Recently, the ICN Shares have been trading at around HK\$0.10 to HK\$0.102.

STAMP DUTY

Seller's ad valorem stamp duty arising in connection with acceptances of the Offer, amounting to HK\$1.00 for every HK\$1,000 or part thereof of the consideration payable in respect of the relevant acceptance which amount an accepting Shareholder will become liable to pay in respect of the relevant acceptance under the Stamp Duty Ordinance (Cap. 117), will be payable by the Offeror.

LETTER FROM SOMERLEY

IRREVOCABLE UNDERTAKING TO ACCEPT

Capital Ace, the beneficial owner of 25,138,080 ICN Shares (“Subject Shares”) representing approximately 7.9% of the existing issued share capital of ICN assuming 320,000,000 ICN Shares in issue, has undertaken, irrevocably and unconditionally, with the Offeror that it will accept, or procure the registered shareholder(s) of the Subject Shares to accept, the Offer in respect of all Subject Shares. Capital Ace has not indicated in the undertaking whether it will elect for the Cash Option or the Securities Exchange Option. The undertaking will lapse if the Offer does not become unconditional in accordance with its terms and conditions, or if the Offer Document is not posted to the ICN Shareholders on or before 31st October, 2002. Capital Ace is a subsidiary of Digital World whose shares are listed on the Main Board of the Stock Exchange. Capital Ace and its concert parties are independent of, not connected with and not acting in concert with the Offeror.

Save as disclosed above, no other Shareholders have undertaken with the Offeror to accept the Offer.

NON-DISPOSAL UNDERTAKING

Based on the ICN Interim Report, International Capital Network Investor Limited and International Technology Capital Limited were substantial shareholders of ICN as at 31st January, 2002 holding 126,256,800 ICN Shares (representing 39.46% of the then issued share capital of ICN) and 77,846,400 ICN Shares (representing 24.33% of the then issued share capital of ICN), respectively.

Based on the ICN Prospectus, Wise Express Assets Limited is an initial management shareholder (with the meaning ascribed thereto in the GEM Listing Rules) of ICN holding 10,758,720 ICN Shares representing 3.36% of the then issued share capital of ICN after completion of the IPO of ICN in November 2001.

Based on the ICN Prospectus, the above three companies have undertaken to ICN and the Stock Exchange that they will not, save as provided in Rule 13.18 of the GEM Listing Rules, dispose of (or enter into any agreement to dispose of) nor permit the registered holder to dispose of (or to enter into any agreement to dispose of) any of their direct or indirect interest in the aforesaid ICN Shares held by them up to and including 30th November, 2002.

Shareholders’ attention is drawn to the expected timetable set out on page 1 of this document. As the First Closing Date of the Offer will be after 30th November, 2002, the Offer will also be made for the ICN Shares held by the three companies mentioned above.

Based on the ICN Prospectus, the lock-up period for the Subject Shares held by Capital Ace ended on 30th May, 2002. Accordingly, Capital Ace is not subject to the non-disposal undertaking.

International Capital Network Investor Limited, International Technology Capital Limited, Wise Express Assets Limited and Capital Ace and their respective concert parties are not acting in concert with the Offeror.

LETTER FROM SOMERLEY

MAINTAINING THE LISTING OF ICN

It is the intention of the directors of the Offeror to maintain the listing of ICN Shares on GEM after the close of the Offer. The directors of the Offeror will undertake to the Stock Exchange that appropriate steps will be taken to ensure that sufficient public float exists for the ICN Shares. As the first date of listing of ICN was on 30th November, 2001 and the market capitalization of ICN as at the commencement of the listing of the ICN Shares on GEM did not exceed HK\$4,000 million, the minimum prescribed percentage of ICN Shares in public hands is 25%.

The Stock Exchange has stated that, if less than 25% of the issued ICN Shares are in public hands at the close of the Offer, or if the Stock Exchange believes that a false market exists or may exist in the trading of the ICN Shares or that there are insufficient ICN Shares in public hands to maintain an orderly market, it will consider exercising its discretion to suspend dealings in the ICN Shares.

If ICN remains a listed company, the Stock Exchange will closely monitor all acquisitions or disposals of assets by ICN. Under the GEM Listing Rules, the Stock Exchange has the discretion to require ICN to issue a circular to its shareholders irrespective of the size of the proposed transaction, particularly when such proposed transaction represents a departure from the principal activities of ICN. The Stock Exchange also has the power pursuant to the GEM Listing Rules to aggregate a series of transactions and any such transactions may result in ICN being treated as if it were a new listing applicant and subject to the requirements for new applicants as set out in the GEM Listing Rules.

PROCEDURES FOR ACCEPTANCE AND SETTLEMENT

(a) Procedures for acceptance

In order to accept the Offer for your ICN Shares, you must complete the relevant Form of Acceptance, in accordance with the instructions printed thereon, which instructions form part of the terms of the Offer. The completed relevant Form of Acceptance should then be forwarded with the relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title for not less than the number of ICN Shares in respect of which you accept the Offer, by post or by hand (marked "ICN Offer") on the envelope to the Agent at 4th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong as soon as possible but **in any event so as to reach the Agent not later than 4:00 p.m. on Monday, 9th December, 2002** or such later time and/or date as the Offeror may determine and announce. No acknowledgement of receipt of any form of acceptance and transfer, share certificate(s), transfer receipt(s) or other document(s) of title will be given. Your attention is also drawn to the further terms of the Offer set out in Appendix I of the Offer Document and in the Form of Acceptance.

LETTER FROM SOMERLEY

(b) Settlement

Provided that the relevant Form of Acceptance, any relevant share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or a satisfactory indemnity or indemnities required in respect thereof) are received by the Agent no later than 4:00 p.m. on Monday, 9th December, 2002 and are duly completed, a remittance for the amount due to you (if you elect the Cash Option) under the Offer or the certificates of the Kong Sun Shares (if you elect the Securities Exchange Option) will be posted or despatched in accordance with the authority contained in the relevant Form of Acceptance within 10 days of the later of (i) the date on which all the relevant documents are received by the Agent so as to render such acceptance complete and valid; and (ii) the date when the Offer becomes or is declared unconditional.

If the Offer does not become unconditional within the time permitted by the Takeovers Code, your Form of Acceptance and share certificate(s) and/or transfer receipt(s) and/or other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) received by the Offeror will be returned to you or your designated agent by post or such documents will be made available by the Agent for collection, as soon as possible but in any event within 10 days of the Offer having lapsed. Where you have forwarded one or more transfer receipt(s) and in the meantime one or more share certificate(s) has/have been collected on your behalf in respect thereof, you will be sent such share certificate(s) and/or any other document(s) of title by post in lieu of the transfer receipt(s).

The attention of Shareholders with registered addresses outside Hong Kong is drawn to paragraph (j) of the section headed "General" in Appendix I of the Offer Document.

All documents, share certificates and remittances sent to the Shareholders through the post will be sent to them, at their own risk, at their respective addresses as they appear in the register of members of ICN, unless otherwise specified in paragraph 1(c) of the Form of Acceptance completed and returned by the relevant Shareholders. All such documents, share certificates and remittances will be sent at the risk of the persons entitled thereto and none of the Offeror, Somerley or the Agent will be responsible for any loss or delay in transmission or any other liabilities whatsoever that may arise as a result thereof or in connection therewith.

(c) Right of withdrawal

Acceptances to the Offer tendered by Shareholders shall be irrevocable.

TAXATION

Shareholders are recommended to consult their own professional advisers if they are in any doubt as to the taxation implications of their accepting the Offer. It is emphasized that none of the Offeror, Somerley, or any of their respective directors or any other person involved in the Offer accepts responsibility for any tax effects on, or liabilities of, any person or persons as a result of their acceptance of the Offer.

LETTER FROM SOMERLEY

GENERAL

In accordance with the Takeovers Code, ICN is required to (i) form an independent board committee to consider the Offer and report to the Shareholders on the Offer; and (ii) appoint an independent financial adviser to advise the independent board committee regarding the Offer.

In accordance with the Takeovers Code, ICN is required to despatch an offeree document containing, among others, the advice from the independent board committee and the independent financial adviser to Shareholders relating to the Offer by 24th October, 2002.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the Appendices to the Offer Document, in particular, further terms of the Offer in Appendix I and financial information on Kong Sun in Appendix II.

Yours faithfully,
For and on behalf of
Somerley Limited
Mei H. Leung
Managing Director

A. PROCEDURES FOR ACCEPTANCE

- (a) If the certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) in respect of your ICN Shares is/are in your name and you wish to accept the Offer, you must send the relevant duly completed Form of Acceptance together with the relevant ICN Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title (and/or any satisfactory indemnity or indemnities required in respect thereof) to the Agent.
- (b) If the certificate(s) and/or transfer receipt(s) and/or any other document(s) of title in respect of your ICN Shares is/are in the name of a nominee company or some name other than your own, and you wish to accept the Offer, you must either:
- (i) lodge your ICN Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title with the nominee company, or other nominee, with instructions authorising it to accept the Offer on your behalf and requesting it to deliver the relevant Form of Acceptance duly completed together with the relevant ICN Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title to the Agent;
or
- (ii) arrange for the ICN Shares to be registered in your name by ICN through its registrar and send the relevant Form of Acceptance duly completed together with the relevant ICN Share certificate(s) and/or transfer receipt(s) and/or any other document(s) of title to the Agent.
- (c) If your ICN Shares have been lodged with your broker/custodian bank through CCASS, instruct your broker/custodian bank to authorise HKSCC Nominees Limited to accept the Offer on your behalf on or before the deadline set out by HKSCC Nominees Limited, in this case, on Friday, 6th December, 2002 which is one business day before the latest date on which acceptances of the Offer must be received by the Agent. In order to meet the deadline set by HKSCC Nominees Limited, you should check with your broker/custodian bank for the timing of processing your instructions, and submit your instructions to your broker/custodian bank as required by them; or

if your ICN Shares have been lodged with your Investor Participant Account with CCASS, authorise your instruction via the CCASS Phone System or CCASS Internet System not later than one business day before the latest date on which acceptances of the Offer must be received by the Agent, which is Friday, 6th December, 2002 in this case.

- (d) If you have lodged transfer(s) of ICN Shares for registration in your name and have not yet received your ICN Share certificate(s) and you wish to accept the Offer, you should nevertheless complete the relevant Form of Acceptance and deliver it to the Agent together with the transfer receipt(s) duly signed by yourself. Such action will be deemed to be an authority to the Offeror or its agent(s) to collect from ICN or its registrars on your behalf

the relevant ICN Share certificate(s) when issued and to deliver such certificate(s) to the Agent and to authorise and instruct the Agent to hold such certificate(s), subject to the terms of the Offer, as if it was/they were delivered to the Agent with the relevant Form of Acceptance.

- (e) If the ICN Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title is/are not readily available and/or is/are lost and you wish to accept the Offer, the relevant Form of Acceptance should nevertheless be completed and delivered to the Agent and the relevant ICN Share certificate(s) and/or transfer receipt(s) and/or other document(s) of title should be forwarded to the Agent as soon as possible thereafter.
- (f) Acceptance of the Offer will not be treated as valid unless:
- (i) it is received by the Agent on or before 4:00 p.m. on Monday, 9th December, 2002 and the Agent has recorded that the acceptance and any relevant documents as required by the Note 1 to the Rule 30.2 of the Takeovers Code have been so received; and
- (ii) the Form of Acceptance is duly completed and is:
- accompanied by ICN Share certificates and if those certificates are not in the name of the accepting Shareholders, such other documents (e.g. a duly stamped transfer of the relevant ICN Shares in blank or in favour of the accepting Shareholders executed by the registered holder) in order to establish the right of the accepting Shareholders to become the registered holder of the relevant ICN Shares; or
 - from a registered holder or his personal representatives (but only up to the amount of the registered holding and only to the extent that the acceptance relates to ICN Shares which are not taken into account under another subparagraph of this paragraph (ii)); or
 - certified by the ICN's registrar or the Stock Exchange.

If the Form of Acceptance is executed by a person other than the registered holder, appropriate evidence of authority (e.g. grant of probate or certified copy of a power of attorney) must be produced.

- (g) No acknowledgement of receipt for any Forms of Acceptance, ICN Share certificate(s), transfer receipts and/or any other document(s) of title will be given.

B. ACCEPTANCE PERIOD AND REVISIONS

- (a) The Offeror reserves the right, subject to the Takeovers Code, to revise or extend the Offer after the despatch of this document either in respect of its terms and conditions or the value or nature of the consideration offered or otherwise. If the Offeror revises its terms, all Shareholders, whether or not they have already accepted the Offer, will be entitled to the revised terms. A revised offer will be kept open for at least 14 days following the date on which the revised offer document is posted.
- (b) Unless the Offer has previously been extended or revised or has previously become or been declared unconditional, the Offer will be closed on Monday, 9th December, 2002. The latest time for acceptances of the Offer is 4:00 p.m. on Monday, 9th December, 2002.
- (c) If the Offer becomes unconditional, it will remain open for acceptance for not less than 14 days from the date on which the Offeror announces that the Offer has become unconditional.
- (d) The Offer shall not be capable of becoming unconditional in all respects after midnight on Monday, 30th December, 2002 except with the consent of the Executive.
- (e) If the Offer is extended or revised, the announcement of such extension or revision will state the next closing date. If the Offer is extended or revised, it will remain open for acceptance for a period of not less than 14 days from the posting of the written notification of the extension or revision to the Shareholders and, unless previously extended or revised, shall be closed on the subsequent closing date. The benefit of any revision of the Offer will be available to any Shareholder who has previously accepted the Offer. The execution by or on behalf of any Shareholder who has previously accepted the Offer of a Form of Acceptance shall be deemed to constitute acceptance of the revised Offer unless such Shareholder becomes entitled to withdraw his or her acceptance and duly does so.
- (f) In order to be valid, acceptances must be received by the Agent in accordance with the instructions printed on the relevant form(s) of acceptance and transfer by 4:00 p.m. on the closing date of the Offer, unless the Offer is extended or revised.
- (g) The Offeror may introduce new conditions to be attached to any revision to any of the Offer, or any subsequent revision thereof but only to the extent necessary to implement the revised Offer and subject to the consent of the Executive.
- (h) If the closing date of the Offer is extended, any reference in this Offer Document and in the Forms of Acceptance to the closing date shall, except where the context otherwise requires, be deemed to refer to the closing date of the Offer as so extended.

C. ANNOUNCEMENTS

- (a) By 6:00 p.m. on the closing date, or such later time and/or date as the Executive may agree, the Offeror shall inform the Executive and the Stock Exchange of its intentions in relation to the revision or the extension or expiry of the Offer. The Offeror shall publish an announcement on the website of the Stock Exchange by 7:00 p.m. on the closing date of the Offer stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional. The Offeror shall republish such announcement (in accordance with paragraph (c) below) on the next business day after the closing date of the Offer stating whether the Offer has been revised or extended, has expired or has become or been declared unconditional. The announcement shall state the total number of ICN Shares:
- for which acceptances of the Offer have been received;
 - held, controlled or directed by the Offeror or persons acting in concert with it before the offer period; and
 - acquired or agreed to be acquired during the offer period by the Offeror or any persons acting in concert with it.

The announcement shall include the details of voting rights, rights over shares, derivatives and arrangements as required by Rule 3.5(c), (d) and (f) of the Takeovers Code. The announcement shall also specify the percentages of the relevant classes of share capital, and the percentages of voting rights, represented by these numbers.

- (b) In computing the number of ICN Shares represented by acceptances, there will be included, for announcement purposes, acceptances which are not in all respects in order or are subject to verification. The number of these acceptances will be separately stated.
- (c) As required under the Takeovers Code, all announcements in relation to the Offer, in respect of which the Executive has confirmed that it has no further comments, must be published as a paid announcement in at least one leading English language newspaper and one leading Chinese language newspaper, being in each case a newspaper which is published daily and circulating generally in Hong Kong.

D. RIGHT OF WITHDRAWAL

Acceptances to the Offer tendered by Shareholders shall be irrevocable.

E. GENERAL

- (a) All communications, notices, form(s) of acceptance and transfer, certificates, transfer receipts and other documents of title or of indemnity or of any other nature to be delivered by or sent to or from the Shareholders will be delivered by or sent to or from them, or their designated agents, at their risk, and none of the Offeror, Somerley nor the Agent accepts any liability for any loss or any other liabilities which may arise as a result.
- (b) Acceptance of the Offer by any person will be deemed to constitute a warranty by such person or persons to the Offeror that the ICN Shares acquired under the Offer are sold by such person or persons free from all liens, charges, pledges, options, encumbrances and any other third party rights or interests of any nature whatsoever and together with all rights, benefits, and entitlements attaching and accruing thereto as of the date of the Announcement and thereafter including the right to receive all dividends, rights and distributions declared, paid or made on or after the date of the Announcement (including any dividend which may be declared, paid or made by ICN in respect of the financial year ended 31st July, 2002).
- (c) Acceptance of the Offer by any nominee will be deemed to constitute a warranty by such nominee to the Company that the number of ICN Shares in respect of which it is indicated in the Form of Acceptance are the aggregate number of ICN Shares held by such nominee for such beneficial owners who are accepting the Offer.
- (d) The provisions set out in the enclosed Forms of Acceptance form part of the terms of the Offer.
- (e) The accidental omission to despatch this document and/or the Forms of Acceptance or any of them to any person to whom the Offer is made will not invalidate the Offer in any way.
- (f) The Offer and all acceptances will be governed by and construed in accordance with the laws of Hong Kong.
- (g) References to the Offer in this document and in the Forms of Acceptance shall include any extension and/or revision thereof and references to the Offer becoming unconditional shall include a reference to the Offer being declared unconditional.
- (h) Due execution of a Form of Acceptance will constitute an authority to the Offeror, the directors of the Offeror or to any director of Somerley or their respective agents to complete and execute on behalf of the person accepting the Offer, the Form of Acceptance and any document and to do any other act that may be necessary or expedient for the purpose of vesting in the Offeror, or such person or persons as the Offeror shall direct, the ICN Shares which are the subject of such acceptance.

- (i) The consideration payable to any Shareholder under the Offer will be settled by (i) posting remittances (in the case of the Cash Option); or (ii) delivery of the relevant Kong Sun Shares (in case of the Securities Exchange Option) in accordance with the terms of the Offer and without regard to any lien, right of set-off, counterclaim or other analogous right to which the Offeror may otherwise be, or claim to be, entitled against such Shareholder.
- (j) The making of the Offer to certain persons not resident in Hong Kong may be prohibited or affected by the laws of the relevant jurisdictions. Shareholders not so resident should inform themselves about and observe any applicable legal requirements. It is the responsibility of any person outside Hong Kong wishing to accept the Offer to satisfy himself as to the full observance of the laws of the relevant territory in connection therewith, including the obtaining of any governmental or other consent which may be required or the compliance with other necessary formalities. Any such overseas holder will be responsible for any such transfer or other taxes by whomsoever payable and the Offeror, Somerley and any person acting on their behalf shall be entitled to be fully indemnified and held harmless by such overseas shareholders for any such transfer or other taxes as such person may be required to pay. Acceptances of the Offer by any such person will constitute a warranty by such person that such person is permitted under all applicable laws to receive and accept the Offer, and any revision thereof, and such acceptance shall be valid and binding in accordance with all applicable laws.
- (k) The Offer is made in accordance with the Takeovers Code.
- (l) The English text of this document and of the Forms of Acceptance will prevail over the Chinese text.

1. UNAUDITED INTERIM RESULTS

The following is the unaudited financial statements of the Kong Sun Group for the six months ended 30th June, 2002, together with accompanying notes, extracted from the interim report of Kong Sun dated 19th September, 2002.

“Condensed consolidated income statement

For the six months ended 30 June 2002

		For the six months ended 30 June	
		2002	2001
		(Unaudited)	(Unaudited)
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
TURNOVER	2	134,791	25,844
Other revenue and gains	2	4,874	1,758
Cost of inventories sold		(105,193)	(4,464)
Staff costs		(7,217)	(5,648)
Depreciation and amortisation		(3,976)	(3,473)
Other operating expenses		<u>(6,531)</u>	<u>(9,145)</u>
PROFIT FROM OPERATING ACTIVITIES	3	16,748	4,872
Finance costs		(1,321)	(2,147)
Share of profits less losses of associates (after amortisation of goodwill of HK\$4,799,000)		<u>(6,810)</u>	<u>–</u>
PROFIT BEFORE TAXATION		8,617	2,725
Tax	4	<u>–</u>	<u>(121)</u>
PROFIT BEFORE MINORITY INTERESTS		8,617	2,604
Minority interests		<u>(1,383)</u>	<u>(758)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		<u><u>7,234</u></u>	<u><u>1,846</u></u>
DIVIDEND		<u><u>–</u></u>	<u><u>–</u></u>
EARNINGS PER SHARE	5		
– Basic		<u><u>0.34 cents</u></u>	<u><u>0.28 cents</u></u>
– Diluted		<u><u>0.33 cents</u></u>	<u><u>N/A</u></u>

Condensed consolidated balance sheet

30 June 2002

	<i>Notes</i>	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
NON-CURRENT ASSETS			
Fixed assets		46,035	47,092
Investment properties		222,809	200,010
Properties under development		225,452	211,513
Goodwill:			
Goodwill		15,760	17,768
Negative goodwill		(2,958)	(3,302)
Interests in associates		83,414	104,946
Intangible assets		2,626	2,797
Long term investments		41,573	21,982
Deposits and advances		96,756	56,351
		<u>731,467</u>	<u>659,157</u>
CURRENT ASSETS			
Short term investments		57	149
Inventory		1,353	2,186
Properties held for sales		36,563	28,964
Trade receivables	7	28,262	25,594
Trade receivables in respect of securities transactions	8	3,363	3,055
Loan receivables		33,446	37,330
Other receivables		94,007	45,904
Pledged time deposits	16	4,025	24,011
Cash held on behalf of securities clients		85	110
Cash and cash equivalents		10,818	15,076
		<u>211,979</u>	<u>182,379</u>
CURRENT LIABILITIES			
Trade and bills payables	9	28,529	29,787
Trade payables in respect of securities transactions	10	2,047	2,559
Other payables		21,448	26,702
Tax payable		706	866
Interest-bearing bank loans and other borrowings		9,273	28,518
		<u>62,003</u>	<u>88,432</u>

		30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
	<i>Notes</i>		
NET CURRENT ASSETS		<u>149,976</u>	<u>93,947</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		881,443	753,104
NON-CURRENT LIABILITIES			
Finance lease payables		238	–
Interest-bearing bank loans and other borrowings		123,156	124,662
Deferred tax		<u>501</u>	<u>501</u>
		<u>123,895</u>	<u>125,163</u>
Minority interests		<u>90,822</u>	<u>89,440</u>
		<u><u>666,726</u></u>	<u><u>538,501</u></u>
CAPITAL AND RESERVES			
Issued capital	11	241,118	205,518
Reserves		<u>425,608</u>	<u>332,983</u>
		<u><u>666,726</u></u>	<u><u>538,501</u></u>

Condensed statement of changes in equity*For the six months ended 30 June 2002*

	Share capital	Share premium account	General reserves	Investment property revaluation reserve	Exchange fluctuation reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
At 1 January 2002	205,518	235,318	18,000	11,543	(3,528)	71,650	538,501
Exchange adjustments	-	-	-	-	4,342	-	4,342
Issue of shares	35,600	81,400	-	-	-	-	117,000
Share issue expenses	-	(351)	-	-	-	-	(351)
Net profit for the period	-	-	-	-	-	7,234	7,234
	<u>241,118</u>	<u>316,367</u>	<u>18,000</u>	<u>11,543</u>	<u>814</u>	<u>78,884</u>	<u>666,726</u>
At 30 June 2002	<u>241,118</u>	<u>316,367</u>	<u>18,000</u>	<u>11,543</u>	<u>814</u>	<u>78,884</u>	<u>666,726</u>
At 1 January 2001	58,800	57,536	18,000	-	419	54,495	189,250
Exchange adjustments	-	-	-	-	(419)	-	(419)
Issue of shares	36,036	47,153	-	-	-	-	83,189
Share issue expenses	-	(553)	-	-	-	-	(553)
Net profit for the period	-	-	-	-	-	1,846	1,846
	<u>94,836</u>	<u>104,136</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>56,341</u>	<u>273,313</u>
At 30 June 2001	<u>94,836</u>	<u>104,136</u>	<u>18,000</u>	<u>-</u>	<u>-</u>	<u>56,341</u>	<u>273,313</u>

Condensed consolidated cash flow statement*For the six months ended 30 June 2002*

	Six months ended	
	30 June	
	2002	2001
	(Unaudited)	(Unaudited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET CASH (OUTFLOW)/INFLOW FROM		
OPERATING ACTIVITIES	(45,732)	10,973
NET CASH OUTFLOW FROM INVESTING ACTIVITIES	(37,045)	(65,423)
NET CASH INFLOW FROM FINANCING ACTIVITIES	94,306	69,778
	<u> </u>	<u> </u>
INCREASE IN CASH AND CASH EQUIVALENTS	11,529	15,328
Cash and cash equivalents at beginning of period	(9,846)	10,772
Effects of foreign exchange rate changes, net	3,384	765
	<u> </u>	<u> </u>
CASH AND CASH EQUIVALENTS AT END OF PERIOD	<u>5,067</u>	<u>26,865</u>
	<u> </u>	<u> </u>
ANALYSIS OF BALANCES OF CASH AND		
CASH EQUIVALENTS		
Cash and bank balances	10,818	27,244
Bank overdrafts	(5,751)	(379)
	<u> </u>	<u> </u>
	<u>5,067</u>	<u>26,865</u>
	<u> </u>	<u> </u>

Notes to the condensed financial statements

1. Accounting Policies

The unaudited condensed consolidated interim financial statements have been prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim financial reporting” (“SSAP 25”) issued by the Hong Kong Society of Accountants. The accounting policies and basis of presentation used in the preparation of these interim financial statements are the same as those used in the audited financial statements for the year ended 31 December 2001, except for the adoption of the following new and revised SSAPs, which are effective for the first time in the preparation of the unaudited condensed consolidated financial statements for the period:

- SSAP 1 (Revised): “Presentation of Financial Statements”
- SSAP 11 (Revised): “Foreign Currency Transaction”
- SSAP 15 (Revised): “Cash Flow Statements”
- SSAP 33: “Discontinuing Operations”
- SSAP 34: “Employee Benefits”

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis of presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to SSAP 1 is to change the requirements from presenting a statement of recognised gains and losses to a statement of changes in equity. The condensed consolidated statement of changes in equity for the period and the comparative figures have been presented in accordance with SSAP 1 (Revised).

SSAP 11 (Revised) prescribed the basis for the translation of foreign currency transactions and financial statements. SSAP 11 (Revised) has had no major impact on these condensed consolidated financial statements.

SSAP 15 (Revised) prescribes the provision of information about the historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the period and the comparative figures have been presented in accordance with SSAP 15 (Revised).

SSAP 33 prescribes the basis for reporting information about discontinuing and discontinued operations. SSAP 33 has had no major impact on these condensed consolidated financial statements.

SSAP 34 prescribes the accounting treatment and disclosure for employee benefits. SSAP 34 has had no major impact on these condensed consolidated financial statements.

Certain comparative figures have been restated to conform with current period’s presentation.

2. Segment Information

(a) Business segments

The following tables present revenue and profit/(loss) for the Group's business segments.

	Property investment and development		Trading of computer products		Securities broking and investment		Financial services		Information technology		Corporate and others		Elimination		Consolidation	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	20,530	7,482	109,761	4,495	1,747	2,675	2,355	7,919	398	3,273	-	-	-	-	134,791	25,844
Intersegment sales	1,164	1,271	-	-	-	-	36	530	4	15	-	-	(1,204)	(1,816)	-	-
Other revenue	655	647	91	-	115	193	2	582	-	18	1	-	-	-	864	1,440
Total	22,349	9,400	109,852	4,495	1,862	2,868	2,393	9,031	402	3,306	1	-	(1,204)	(1,816)	135,655	27,284
Segment results	13,733	3,616	2,882	(789)	(289)	(244)	157	5,098	(358)	(1,171)	(9)	(140)	(1,204)	(1,816)	14,912	4,554
Interest income and unallocated gains															4,010	318
Unallocated expenses															(2,174)	-
Profit from operating activities															16,748	4,872
Finance costs															(1,321)	(2,147)
Share of profits less losses and amortisation of goodwill of associate															(6,810)	-
Profit before tax															8,617	2,725
Tax															-	(121)
Profit before minority interests															8,617	2,604
Minority interests															(1,383)	(758)
Net profit from ordinary activities attributable to shareholders															7,234	1,846

(b) *Geographical segments*

The following tables present revenue and profit/(loss) for the Group's geographical segments.

	PRC											
	Hong Kong		Mainland China		Singapore		Malaysia		Elimination		Consolidated	
	For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June		For the six months ended 30 June	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	110,034	17,067	5,223	499	–	1,582	19,534	6,696	–	–	134,791	25,844
Segment results	356	3,399	2,175	334	–	(1,459)	12,381	2,280	–	–	14,912	4,554

3. Profit from Operating Activities

The Group's profit from operating activities is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Cost of inventories sold	105,193	4,464
Depreciation	1,797	1,911
Amortisation of goodwill of subsidiaries	2,008	1,204
Negative goodwill recognised as income	(344)	–
Amortisation of trading right	171	171
Amortisation of self-developed software	–	187
Unrealised profit on short term listed investments	(9)	(19)
Bank interest income	(38)	(319)

4. Tax

	For the six months ended 30 June	
	2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Tax charge for the period	–	121

Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profits arising from Hong Kong for the period. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

5. Earnings per Share

The calculation of basic earnings per share is based on the net profit attributable to shareholders for the period of HK\$7,234,000 (2001: HK\$1,846,000) and on the weighted average of 2,125,969,000 (2001: 657,329,000) shares in issue during the period.

The diluted earnings per share is based on 2,160,580,000 ordinary shares which is the weight average number of ordinary shares in issue during the period plus the weight average number of 34,611,000 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised.

Diluted earnings per share for the period ended 30 June 2001 had not been calculated as there was no dilutive potential ordinary shares in that period.

6. Interim Dividend

The Board resolved that no interim dividend was declared for the period ended 30 June 2002 (2001: Nil).

7. Trade Receivables

The ageing analysis of trade receivables is as follows:

	30 June 2002	31 December 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	14,571	16,655
1–3 months	6,513	7,867
4–6 months	1,314	1,011
7–12 months	5,864	61
Over 1 year	3,734	3,734
	<u>31,996</u>	<u>29,328</u>
Provision	(3,734)	(3,734)
	<u><u>28,262</u></u>	<u><u>25,594</u></u>

Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables; overdue balances are regularly reviewed by senior management.

8. Trade Receivables in Respect of Securities Transactions

	30 June 2002	31 December 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Trade receivables in respect of securities transactions	3,613	3,305
Provision	(250)	(250)
	<u>3,363</u>	<u>3,055</u>

Trade receivables in respect of securities transactions are due for settlement two days after the transaction date. Except for the balances which have been provided for, all the remaining balances are current.

9. Trade and Bills Payables

The ageing analysis of trade payables is as follows:

	30 June 2002	31 December 2001
	(Unaudited)	(Audited)
	<i>HK\$'000</i>	<i>HK\$'000</i>
Current	16,149	18,496
1–3 months	11,701	10,427
4–6 months	195	270
7–12 months	484	594
	<u>28,529</u>	<u>29,787</u>

10. Trade Payables in Respect of Securities Transactions

The ageing analysis of trade payables in respect of securities transactions is as follows:

	30 June 2002 (Unaudited) <i>HK\$'000</i>	31 December 2001 (Audited) <i>HK\$'000</i>
Current	<u>2,047</u>	<u>2,559</u>

11. Share Capital

	30 June 2002		31 December 2001	
	<i>No. of shares</i>	<i>HK\$'000</i>	<i>No. of shares</i>	<i>HK\$'000</i>
Authorised:				
Ordinary shares of HK\$0.1 each	<u>4,000,000,000</u>	<u>400,000</u>	<u>4,000,000,000</u>	<u>400,000</u>
Issued and fully paid:				
At beginning of the period	2,055,184,836	205,518	588,003,571	58,800
Issue of shares	56,000,000	5,600	591,572,223	59,157
Subscription of shares	<u>300,000,000</u>	<u>30,000</u>	<u>875,609,042</u>	<u>87,561</u>
At end of the period	<u>2,411,184,836</u>	<u>241,118</u>	<u>2,055,184,836</u>	<u>205,518</u>

During the period, the following movements in share capital were recorded:

- (a) On 29 April 2002, the Company, through its indirect wholly-owned subsidiary Kong Sun Resources Limited, entered into an acquisition agreement with Koffman Securities Limited, an independent third party, relating to an acquisition of a property comprises a three-storey office space for a consideration of HK\$21 million. The consideration was satisfied by the issue and allotment of 56 million new shares of the Company at an issue price of HK\$0.375 per shares. The acquisition was completed on 10 May 2002.
- (b) On 4 February 2002, a conditional placing and subscription agreement was entered into between the Company, Kong Fa and a wholly-owned subsidiary of Beijing Enterprises Holdings Limited (“Beijing Enterprises”), a company incorporated and publicly listed in Hong Kong. Pursuant to the agreement, Kong Fa agreed to place 100,000,000 existing ordinary shares of the Company to Beijing Enterprises; and to subscribe for 300,000,000 new ordinary shares of the Company, both at HK\$0.32 per share. The subscription of shares by Kong Fa constituted a connected transaction under the Listing Rules. The transaction was completed on 29 May 2002.

The Company operates a share option scheme (the “Scheme”), further details of which are also set out under the heading “Share option scheme” in the Report of the Directors on page 22.

At the balance sheet date, the exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 68,282,085 additional ordinary shares of HK\$0.10 each for aggregate proceeds of HK\$12,277,000 before the related share issue expenses.

At the beginning of the period, the Company had outstanding warrants of HK\$70,560,428 before the related share issue expenses at the adjusted prices of HK\$0.6 each. During the period, no warrants were exercised and such warrants expired on 25 April 2002.

12. Related Party Transactions

The Group had the following material transactions with related parties during the period:

	<i>Notes</i>	For the six months ended 30 June	
		2002 (Unaudited) HK\$'000	2001 (Unaudited) HK\$'000
Proceeds received from Kong Fa for subscription of shares	(i)	65,664	86,775
Management fees received from Equal Gain Sdn. Bhd. ("Equal Gain") in which Kong Sun Enterprise Sdn. Bhd. ("KSE") has a controlling equity interest	(ii)	247	177

Notes:

- (i) On 4 February 2002, Kong Fa placed 100,000,000 shares to the Beijing Enterprises at a price of HK\$0.32 per share. In return, the Company issued and allotted 300,000,000 shares at the same price to Kong Fa. The placing and subscription was completed on 29 May 2002. Details of the transaction were contained in note 11(b).
- (ii) Certain employees of the Group provided management services to KSE and Equal Gain, and management fees were received based on their costs plus a mark-up.

13. Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date.

As at 30 June 2002, the Company had contingent liabilities in respect of guarantees amounting to HK\$24,000,000 (as at 31 December 2001: HK\$18,000,000) given to banks for the general banking facilities granted to subsidiaries of the Company.

14. Operating Lease Arrangements

(a) *As lessor*

The Group leases its investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 5 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 30 June 2002, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Within one year	11,993	8,956
In the second to fifth years, inclusive	7,801	6,881
	19,794	15,837

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to five years.

At 30 June 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	30 June 2002 (Unaudited) HK\$'000	31 December 2001 (Audited) HK\$'000
Within one year	1,071	1,188
In the second to fifth years, inclusive	429	392
	<u>1,500</u>	<u>1,580</u>

15. Commitments*(a) Capital commitments*

At 30 June 2002, the Group had contracted capital commitments amounting to HK\$36,734,000 (as at 31 December 2001: HK\$53,188,000).

(b) Other commitments

At 30 June 2002, the Group had consultancy fees of HK\$355,000 (as at 31 December 2001: HK\$460,000) payable under non-cancellable consultancy agreements expiring within one year.

16. Pledge of Assets

At 30 June 2002, the following assets of the Group were pledged to secure the Group's credit facilities:

- (a) The Group's bank deposits approximately HK\$4,025,000 (as at 31 December 2001: HK\$24,011,000) were pledged to a bank to secure banking facilities.
- (b) The Group's has pledged its land and buildings and investment properties situated in Hong Kong and the PRC in an aggregate carrying value of approximately HK\$74,923,000 (as at 31 December 2001: HK\$74,272,000) to secure its general banking facilities.
- (c) The Group's investment properties situated in Malaysia which had an aggregate carrying value of approximately HK\$160,160,000 (as at 31 December 2001: HK\$160,160,000) had pledged to secure other borrowings.

17. Post Balance Sheet Events

On 11 June 2002, the Group entered into a conditional sale and purchase agreement with Koffman Financial Group Limited ("KFG") and Koffman Securities Limited ("Koffman"), independent third parties. The Group agreed to dispose of 80% interests in its subsidiary, Coin Fall Limited ("Coin Fall"). At the same time, the Group entered into a conditional sale and purchase agreement with KFG to purchase 20% interests in Koffman. The transactions were completed on 26 August 2002.

18. Approval of the Interim Financial Statements

These condensed interim financial statements were approved by the Board on 18 September 2002."

2. FINANCIAL SUMMARY

The following is a summary of the published results and the assets and liabilities of the Kong Sun Group for three years ended 31st December, 2001, extracted from the annual report of Kong Sun for the year ended 31st December, 2001:

“	2001	2000	1999
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
RESULTS			
TURNOVER	<u>143,366</u>	<u>39,430</u>	<u>16,508</u>
PROFIT/(LOSS) BEFORE TAX	21,992	9,057	(4,084)
Tax	<u>(1,018)</u>	<u>(1,009)</u>	<u>(44)</u>
PROFIT/(LOSS) BEFORE MINORITY INTERESTS	20,974	8,048	(4,128)
Minority interests	<u>(3,819)</u>	<u>(1,024)</u>	<u>(363)</u>
NET PROFIT/(LOSS) ATTRIBUTABLE TO SHAREHOLDERS	<u>17,155</u>	<u>7,024</u>	<u>(4,491)</u>
DIVIDEND	<u>–</u>	<u>–</u>	<u>–</u>
ASSETS AND LIABILITIES AND MINORITY INTERESTS			
TOTAL ASSETS	841,536	310,983	178,144
TOTAL LIABILITIES	(213,595)	(64,472)	(47,305)
MINORITY INTERESTS	<u>(89,440)</u>	<u>(57,261)</u>	<u>(5,188)</u>
	<u>538,501</u>	<u>189,250</u>	<u>125,651”</u>

3. AUDITED FINANCIAL STATEMENTS

The following are the audited financial statements of the Kong Sun Group for the two years ended 31st December, 2001, together with accompanying notes, extracted from Kong Sun's annual report for the year ended 31st December, 2001:

“Consolidated Profit and Loss Account

Year ended 31 December 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
TURNOVER	5	143,366	39,430
Other revenue and gains	5	29,591	12,377
Cost of inventories sold		(97,301)	–
Cost of short term investments sold		–	(4,193)
Staff costs		(15,232)	(12,349)
Depreciation and amortisation expenses		(8,437)	(5,204)
Other operating expenses		<u>(19,075)</u>	<u>(16,531)</u>
PROFIT FROM OPERATING ACTIVITIES	6	32,912	13,530
Finance costs	7	(4,487)	(4,473)
Share of profits less losses of associates (after amortisation of goodwill of HK\$5,335,000 – note 18)		<u>(6,433)</u>	<u>–</u>
PROFIT BEFORE TAX		21,992	9,057
Tax	10	<u>(1,018)</u>	<u>(1,009)</u>
PROFIT BEFORE MINORITY INTERESTS		20,974	8,048
Minority interests		<u>(3,819)</u>	<u>(1,024)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	11	<u>17,155</u>	<u>7,024</u>
DIVIDEND		<u>–</u>	<u>–</u>
EARNINGS PER SHARE	12		
Basic		<u>1.47 cents</u>	<u>1.32 cents</u>
Diluted		<u>1.45 cents</u>	<u>N/A</u>

Consolidated Statement of Recognised and Losses

Year ended 31 December 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net gains/(losses) recognised through reserves:			
Surplus on revaluation of investment properties	37	11,543	–
Exchange differences on translation of the financial statements of foreign entities	37	<u>(3,947)</u>	<u>(320)</u>
Net gains/(losses) not recognised in the consolidated profit and loss account		7,596	(320)
Net profit from ordinary activities attributable to shareholders		<u>17,155</u>	<u>7,024</u>
Total recognised gains and losses		<u><u>24,751</u></u>	<u><u>6,704</u></u>

Consolidated Balance Sheet

31 December 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)
NON-CURRENT ASSETS			
Fixed assets	13	47,092	49,479
Investment properties	14	200,010	172,111
Properties under development	15	211,513	–
Goodwill:	16		
Goodwill		17,768	5,890
Negative goodwill		(3,302)	–
Interests in associates	18	104,946	
Intangible assets	19	2,797	4,604
Long term investment	20	21,982	21,982
Deposits and advances	21	56,351	25,271
		<u>659,157</u>	<u>279,337</u>
CURRENT ASSETS			
Short term investments	22	149	172
Inventories	23	2,186	–
Properties held for sale		28,964	–
Trade receivables	24	25,594	701
Trade receivables in respect of securities transactions	25	3,055	5,907
Loans receivable		37,330	5,299
Other receivables	26	45,904	2,789
Pledged time deposits	27	24,011	3,869
Cash held on behalf of securities clients		110	45
Cash and cash equivalents	27	15,076	12,864
		<u>182,379</u>	<u>31,646</u>
CURRENT LIABILITIES			
Trade and bills payables	28	29,787	–
Trade payables in respect of securities transactions	29	2,559	3,690
Other payables and accruals	30	26,702	13,617
Tax payable		866	224
Interest-bearing bank and other borrowings	32	28,518	3,993
		<u>88,432</u>	<u>21,524</u>
NET CURRENT ASSETS		<u>93,947</u>	<u>10,122</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		753,104	289,459

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i> (Restated)
TOTAL ASSETS LESS CURRENT LIABILITIES		753,104	289,459
NON-CURRENT LIABILITIES			
Finance lease payables	33	–	113
Interest-bearing bank loans and other borrowings	34	124,662	42,129
Deferred tax	35	501	706
		<u>125,163</u>	<u>42,948</u>
MINORITY INTERESTS		<u>89,440</u>	<u>57,261</u>
		<u><u>538,501</u></u>	<u><u>189,250</u></u>
CAPITAL AND RESERVES			
Issued capital	36	205,518	58,800
Reserves	37	332,983	130,450
		<u><u>538,501</u></u>	<u><u>189,250</u></u>

Consolidated Cash Flow Statement

Year ended 31 December 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
NET CASH (OUTFLOW)/INFLOW FROM			
OPERATING ACTIVITIES	38(a)	(37,204)	6,475
RETURNS ON INVESTMENTS AND			
SERVICING OF FINANCE			
Interest received		2,902	1,833
Interest paid		(4,485)	(4,465)
Interest element on finance lease rental payments		(2)	(8)
Dividends received from listed investments		–	54
Dividends paid to minority shareholders		–	(2,400)
Net cash outflow from returns on investments and servicing of finance		<u>(1,585)</u>	<u>(4,986)</u>
TAX			
Hong Kong profits tax paid		(453)	(155)
Overseas taxes paid		<u>(383)</u>	<u>(28)</u>
Taxes paid		<u>(836)</u>	<u>(183)</u>
INVESTING ACTIVITIES			
Purchases of fixed assets		(806)	(2,088)
Proceeds from disposal of fixed assets		324	–
Additions to properties under development		(172,588)	–
Acquisitions of subsidiaries	38(b)	(2,241)	–
Purchase of an additional interest in a subsidiary	38(c)	(142)	–
Disposal of subsidiaries	38(d)	338	–
Acquisitions of associates		(40,520)	–
Advance to an associate		(9)	–
Proceeds from disposal of short term investments		–	14,475
Increase in pledged time deposits		(20,142)	(281)
(Increase)/decrease in client bank trust account		(65)	518
Additions to long term deposits		<u>(31,080)</u>	<u>–</u>
Net cash (outflow)/inflow from investing activities		<u>(266,931)</u>	<u>12,624</u>
NET CASH (OUTFLOW)/INFLOW BEFORE			
FINANCING ACTIVITIES		(306,556)	13,930

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
NET CASH (OUTFLOW)/INFLOW BEFORE FINANCING ACTIVITIES		(306,556)	13,930
FINANCING ACTIVITIES	38(e)		
Proceeds from issue of share capital		206,199	–
Share issue expenses		(1,252)	(30)
Repayment of long term loan		(27,942)	–
Capital element of finance lease rental payments		(28)	(35)
New interest-bearing bank and other borrowings		112,200	18,129
Net cash inflow from financing activities		<u>289,177</u>	<u>18,064</u>
(DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS		(17,379)	31,994
Cash and cash equivalents at beginning of year		10,772	(20,922)
Effect of foreign exchange rate changes, net		(3,239)	(300)
CASH AND CASH EQUIVALENTS AT END OF YEAR		<u><u>(9,846)</u></u>	<u><u>10,772</u></u>
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances		15,076	12,864
Bank overdrafts		(24,922)	(2,092)
		<u><u>(9,846)</u></u>	<u><u>10,772</u></u>

Balance Sheet

31 December 2001

	<i>Notes</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Fixed assets	13	7	11
Interests in subsidiaries	17	523,042	188,239
Interests in associates	18	9	–
		<u>523,058</u>	<u>188,250</u>
CURRENT ASSETS			
Other receivables	26	5,204	329
Pledged time deposits	27	20,003	–
Cash and cash equivalents	27	80	717
		<u>25,287</u>	<u>1,046</u>
CURRENT LIABILITIES			
Other payables	30	9,043	5,461
Interest-bearing bank borrowings	32	28,518	2,795
		<u>37,561</u>	<u>8,256</u>
NET CURRENT LIABILITIES		<u>(12,274)</u>	<u>(7,210)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		510,784	181,040
NON-CURRENT LIABILITIES			
Bank loans, secured	34	20,662	17,208
		<u>490,122</u>	<u>163,832</u>
CAPITAL AND RESERVES			
Issued capital	36	205,518	58,800
Reserves	37	284,604	105,032
		<u>490,122</u>	<u>163,832</u>

Notes to Financial Statements

31 December 2001

1. CORPORATE INFORMATION

During the year, the Group was involved in the following principal activities:

- property investment and development
- trading of computer products
- securities broking and investment
- financial services
- provision of IT training and software development services

In the opinion of the directors, the ultimate holding company is Kong Fa Holding Limited (“Kong Fa”), which is incorporated in the British Virgin Islands.

2. IMPACT OF NEW AND REVISED STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The following recently-issued and revised SSAPs and related Interpretations are effective for the first time for the current year’s financial statements:

- SSAP 9 (Revised) : “Events after the balance sheet date”
- SSAP 14 (Revised) : “Leases”
- SSAP 18 (Revised) : “Revenue”
- SSAP 26: “Segment reporting”
- SSAP 28: “Provisions, contingent liabilities and contingent assets”
- SSAP 29: “Intangible assets”
- SSAP 30: “Business combinations”
- SSAP 31: “Impairment of assets”
- SSAP 32: “Consolidated financial statements and accounting for investments in subsidiaries”
- Interpretation 12: “Business combinations -subsequent adjustment of fair values and goodwill initially reported”
- Interpretation 13: “Goodwill -continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves”

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group’s accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and Interpretations are summarised as follows:

SSAP 9 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. SSAP 9 (Revised) has had no major impact on these financial statements.

SSAP 14 (Revised) prescribes the basis for lessor and lessee accounting for finance and operating leases, and the required disclosures in respect thereof. Certain amendments have been made to the previous accounting measurement treatments, which may be accounted for retrospectively or prospectively, in accordance with the requirements of the SSAP. The revised SSAP requirements have not had a material effect on the amounts previously recorded in the financial statements, therefore no prior year adjustment has been required. The disclosure changes under this SSAP have resulted in changes to the detailed information disclosed for finance leases and operating leases, which are further detailed in notes 33 and 40 to the financial statements.

SSAP 18 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 9 described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company’s own financial statements for the year. SSAP 18 (Revised) has had no major impact on these financial statements.

SSAP 26 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP is the inclusion of significant additional segment reporting disclosures which are set out in note 4 to the financial statements.

SSAP 28 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The SSAP has had no major impact on these financial statements.

SSAP 29 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of this SSAP has resulted in no change to the previously adopted accounting treatment for intangible assets and the additional disclosures that it requires have not been significant for these financial statements.

SSAP 30 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. The SSAP requires the disclosure of goodwill and negative goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated profit and loss account over its estimated useful life. Negative goodwill is recognised in the consolidated profit and loss account depending on the circumstances from which it arose, as further described in the accounting policy for negative goodwill disclosed in note 3 to the financial statements. Interpretation 13 prescribes the application of SSAP 30 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of the SSAP and Interpretation has not resulted in a prior year adjustment, for the reasons detailed in note 16 to the financial statements. The required new additional disclosures are included in notes 16, 18 and 37 to the financial statements.

SSAP 31 prescribes the recognition and measurement criteria for impairments of assets. The SSAP is required to be applied prospectively and therefore, has had no effect on amounts previously reported in prior year financial statements.

SSAP 32 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements, and has had no impact on the preparation of these financial statements.

In addition to the above new and revised SSAPs and related Interpretations, certain minor revisions to the following SSAPs are effective for the first time for the current year's financial statements:

- SSAP 10: "Accounting for investments in associates"
- SSAP 17: "Property, plant and equipment"
- SSAP 21: "Accounting for interests in joint ventures"

The revisions to SSAPs 10, 17 and 21 have had no significant impact on the preparation of these financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Statements of Standard Accounting Practice, accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for the periodic remeasurement of investment properties and certain equity investments, as further explained below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the year ended 31 December 2001. The results of subsidiaries acquired or disposed of during the year are consolidated from or to their effective dates of acquisition or disposal, respectively. All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

A subsidiary is a company in which the Company, directly or indirectly, controls more than half of its voting power or issued share capital, or controls the composition of its board of directors.

The Company's interests in subsidiaries are stated at cost less any impairment losses.

Joint venture companies

A joint venture company is a company set up by contractual arrangement, whereby the Group and other parties undertake an economic activity. The joint venture company operates as a separate entity in which the Group and the other parties have an interest.

The joint venture agreement between the venturers stipulates the capital contributions of the joint venture parties, the duration of the joint venture and the basis on which the assets are to be realised upon its dissolution. The profits and losses from the joint venture company's operations and any distributions of surplus assets are shared by the venturers, either in proportion to their respective capital contributions, or in accordance with the terms of the joint venture agreement.

A joint venture company is treated as:

- (a) a subsidiary, if the Company has unilateral control over the joint venture company;
- (b) a jointly-controlled entity, if the Company does not have unilateral control, but has joint control over the joint venture company;
- (c) an associate, if the Company does not have unilateral or joint control, but holds generally not less than 20% of the joint venture company's registered capital and is in a position to exercise significant influence over the joint venture company; or
- (d) a long term investment, if the Company holds less than 20% of the joint venture company's registered capital and has neither joint control of, nor is in a position to exercise significant influence over, the joint venture company.

Associates

An associate is a company, not being a subsidiary or a jointly-controlled entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence.

The Group's share of the post-acquisition results and reserves of associates is included in the consolidated profit and loss account and consolidated reserves, respectively. The Group's interests in associates are stated in the consolidated balance sheet at the Group's share of net assets under the equity method of accounting, less any impairment losses. Goodwill or negative goodwill arising from the acquisition of associates is included as part of the Group's interests in associates.

Goodwill

Goodwill arising on acquisition of subsidiaries and associates represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life of 5 years. In the case of associates, any unamortised goodwill is included in the carrying amount thereof, rather than as a separately identified asset on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate.

The carrying amount of goodwill is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Negative goodwill

Negative goodwill arising on the acquisition of subsidiaries and associates represents the excess of the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition, over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the acquisition plan and that can be measured reliably, but which do not represent identifiable liabilities as at the date of acquisition, that portion of negative goodwill is recognised as income in the consolidated profit and loss account when the future losses and expenses are recognised.

To the extent that negative goodwill does not relate to identifiable expected future losses and expenses as at the date of acquisition, negative goodwill is recognised in the consolidated profit and loss account on a systematic basis over the remaining average useful life of the acquired depreciable/amortisable assets. The amount of any negative goodwill in excess of the fair values of the acquired non-monetary assets is recognised as income immediately.

In the case of associates, any negative goodwill not yet recognised in the consolidated profit and loss account is included in the carrying amount thereof, rather than as a separately identified item on the consolidated balance sheet.

On disposal of subsidiaries or associates, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of negative goodwill which has not been recognised in the consolidated profit and loss account and any relevant reserves as appropriate.

Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit and loss account in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Land held under long term leases	Over the remaining lease terms
Buildings	4%
Leasehold improvements	Over the unexpired terms of the leases or the estimated useful life, whichever is shorter
Office furniture and equipment	15% – 33- ¹ / ₃ %
Motor vehicle	17%

The gain or loss on disposal or retirement of a fixed asset recognised in the profit and loss account is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are intended to be held on a long term basis for their investment potential. Such properties are not depreciated and are stated at their open market values on the basis of annual professional valuations performed at the end of each financial year. Changes in the values of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserves insufficient to cover a deficit, on a portfolio basis, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged.

On disposal of an investment property, the relevant portion of the investment property revaluation reserve realised in respect of previous valuations is released to the profit and loss account.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the profit and loss account in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Properties under development

Properties under development held for sale are stated at cost, plus, in the case of pre-sold properties or portions thereof, any attributable profits received on contracted sales, less any provision for foreseeable losses deemed necessary by the directors. Cost includes the cost of land, construction, financing and other related expenses.

Development properties where construction either has not yet commenced, or has been deferred are included as land held for development and are stated at cost less any impairment losses.

Properties under development held for sale in respect of which occupation permits are expected to be granted within one year from the balance sheet date are included as property held for sale in current assets at the lower of cost and net realizable value. Cost includes all development expenditure and other direct costs attributable to such properties. Net realizable value is determined by reference to prevailing market prices on an individual property basis.

Profit on sale of properties under development

When properties under development have been pre-sold, the total estimated profit is apportioned over the entire period of construction to reflect the progress of the development. On this basis, profit recognised on the pre-sold portion of the properties is calculated by reference to the stage of completion of the properties, limited to the extent of non-refundable progress payments received. No profit is recognised until the construction work has progressed to the stage where the eventual completion of the project, and the estimated profit thereon, can be determined with a reasonable degree of certainty.

Leased assets

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases are included in fixed assets and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to the profit and loss account so as to provide a constant periodic rate of charge over the lease terms.

Leases where substantially all the rewards and risks of ownership of the assets remain with the lessor are accounted for as operating leases. When the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets and rentals receivable under the operating leases are credited to the profit and loss account on the straight-line basis over the lease terms. When the Group is the lessee, rentals payable under the operating leases are charged to the profit and loss account on the straight-line basis over the lease terms.

Intangible assets*Trading rights*

Trading rights, representing the eligibility right to trade on The Stock Exchange of Hong Kong Limited, are stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the trading rights over its estimated useful life of ten years.

Self-developed software

Self-developed software is stated at cost less accumulated amortisation and any impairment losses. Amortisation is calculated on the straight-line basis to write off the cost of the asset over its estimated useful life of five years from the date of acquisition.

Long term investments

Long term investments are non-trading investments in unlisted equity securities intended to be held on a long term basis and are stated in the balance sheet at cost less provisions for any impairment losses, on an individual investment basis. The carrying amounts of the long term investments are reviewed as at the balance sheet date in order to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to the fair value unless there is evidence that the decline is temporary. The amount of the reduction is recognised as an expense in the profit and loss account.

Short term investments

Short term investments are investments in equity securities held for trading purposes and are stated at their fair values on the basis of their quoted market prices at the balance sheet date, on an individual investment basis. The gains or losses arising from changes in the fair value of a security are credited or charged to the profit and loss account for the period in which they arise.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the first-in, first-out basis and includes all costs of purchase and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is based on estimated selling prices less any estimated costs necessary to make the sale.

Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for doubtful debts which is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

Provision for doubtful loans

Provision is made against loans as and when their collection is considered doubtful by the directors. Loans are stated in the financial statements net of this provision.

Deferred tax

Deferred tax is provided, using the liability method, on all significant timing differences to the extent it is probable that the liability will crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the balance sheet date of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in the profit and loss account.

Foreign currencies

Foreign currency transactions are recorded at the applicable rates of exchange ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the applicable rates of exchange ruling at that date. Exchange differences are dealt with in the profit and loss account.

On consolidation, the financial statements of overseas subsidiaries and associates are translated into Hong Kong dollars at the applicable rates of exchange ruling at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party, or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

Provident fund schemes

The Group operates mandatory provident fund schemes for those employees who are eligible to participate in the schemes. Contributions are made based on a percentage of the employees' basic salaries and are charged to the profit and loss account as they become payable in accordance with the rules of the schemes. The assets of the schemes are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the schemes.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) from the sale of goods and property developments, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods or property developments sold;
- (b) from the sale of listed investments, commission and brokerage for securities dealing and settlement income, on a transaction date basis;
- (c) rental income, on a time proportion basis over the lease terms;
- (d) interest income, on a time proportion basis taking into account the principal outstanding and the effective interest rate applicable;
- (e) management fees, consultancy service income, IT training and software development services income, when the related services are rendered;
- (f) other commission, on an accrual basis when the services are rendered; and
- (g) dividend income, when the shareholders' right to receive payment has been established.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained earnings within capital and reserves in the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognized immediately as a liability when they are proposed and declared.

4. SEGMENT INFORMATION

SSAP 26 was adopted during the year, as detailed in note 2 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group's operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) the property investment and development segment invests in prime office space for its rental income potential and engages in property development in the People's Republic of China (the "PRC") and Malaysia;
- (b) the computer products segment engages in the trading of computer equipment and related accessories in Hong Kong;
- (c) the securities broking and investment segment engages in the provision of securities broking services and the trading in listed equity investments in Hong Kong;
- (d) the financial services segment engages in the provision of loan finance and corporate finance consultancy services;
- (e) the information technology segment engages in the provision of IT training and software development services; and
- (f) the corporate and other segment comprises mainly corporate income and expense items.

In determining the Group's geographical segments, revenues and results are attributed to the segments based on the location of the customers, and assets are attributed to the segments based on the location of the assets.

(a) Business segments

The following tables present revenue, profit/(loss) and certain asset, liability and expenditure information for the Group's business segments.

Group

	Property investment and development		Trading of computer products		Securities broking and investment		Financial services		Information technology		Corporate and Others		Elimination		Consolidated	
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:																
Sales to external customers	16,942	10,882	99,116	-	4,164	23,575	10,592	1,049	12,552	3,924	-	-	-	-	143,366	39,430
Intersegment sales	2,541	2,776	-	-	500	-	3,572	10,830	27	6	-	-	(6,640)	(13,612)	-	-
Other revenue	1,460	12,019	6	-	594	-	9	-	433	-	-	-	-	-	2,502	12,019
Total	20,943	25,677	99,122	-	5,258	23,575	14,173	11,879	13,012	3,930	-	-	(6,640)	(13,612)	145,868	51,449
Segment results	7,207	15,409	109	-	351	5,148	8,272	11,248	4,375	(5,021)	-	-	(6,640)	(13,612)	13,674	13,172
Interest and dividend income and unallocated gains															27,089	358
Unallocated expenses															(7,851)	-
Profit from operating activities															32,912	13,530
Finance costs															(4,487)	(4,473)
Share of profits less losses and amortisation of goodwill of associates															(6,433)	-
Profit before tax															21,992	9,057
Tax															(1,018)	(1,009)
Profit before minority interests															20,974	8,048
Minority interests															(3,819)	(1,024)
Net profit from ordinary activities attributable to shareholders															17,155	7,024
Segment assets	549,442	241,389	35,410	-	41,834	51,320	47,227	4,603	37,089	9,405	409	2,174	-	-	711,411	308,891
Interests in associates	-	-	-	-	-	-	-	-	-	-	-	-	-	-	104,946	-
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	-	-	257	-
Bank overdrafts included in segment assets	-	-	-	-	-	-	-	-	-	89	24,922	2,003	-	-	24,922	2,092
Total assets	549,442	241,389	35,410	-	41,834	51,320	47,227	4,603	37,089	9,405	409	2,174	-	-	841,536	310,983
Segment liabilities	24,319	3,643	19,687	-	2,875	5,078	1,137	41	1,491	565	9,539	7,981	-	-	59,048	17,308
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	-	-	129,625	45,072
Bank overdrafts included in segment assets	-	-	-	-	-	-	-	-	-	89	24,922	2,003	-	-	24,922	2,092
Total liabilities	24,319	3,643	19,687	-	2,875	5,078	1,137	41	1,491	565	9,539	7,981	-	-	213,595	64,472
Other segment information:																
Depreciation	2,883	2,498	1	-	199	86	390	-	452	295	4	4	-	-	3,929	2,883
Amortisation	-	-	-	-	9,149	1,916	-	-	554	405	-	-	-	-	9,703	2,321
Provision for doubtful debts	8	16	-	-	250	-	316	224	-	-	-	-	-	-	574	240
Capital expenditure	839	178	26	-	88	508	635	-	18	1,402	-	-	-	-	1,606	2,088

(b) Geographical segments

The following tables present revenue, profit and certain asset and expenditure information for the Group's geographical segments.

Group

	PRC										Consolidated	
	Hong Kong		Mainland China		Singapore		Malaysia		Eliminations		2001	2000
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:												
Sales to external customers	114,904	25,482	9,879	1,339	3,107	3,643	15,476	8,966	-	-	143,366	39,430
Segment results	4,364	4,567	7,722	3,495	(2,829)	(4,100)	4,417	9,210	-	-	13,674	13,172
Other segment information:												
Segment assets	212,457	25,920	233,559	20,227	-	3,652	265,395	259,092	-	-	711,411	308,891
Capital expenditure	1,573	1,285	-	-	16	666	17	137	-	-	1,606	2,088

5. TURNOVER AND REVENUE

Turnover represents income from the net invoiced value of goods sold and services rendered, gross rental income, interest income, brokerage commissions, sales of properties under development and short term investments, other commissions and dividend income.

The Group's turnover and other revenue for the year arose from the following activities:

	2001	2000
	HK\$'000	HK\$'000
Turnover		
Sale of goods	99,116	-
Rental income	15,035	10,882
IT training and software development service income	12,552	3,643
Interest income from loans receivable	2,439	1,475
Brokerage commissions	4,147	8,624
Consultancy service income	8,153	-
Sale of properties under development	1,907	-
Sale of short term investments	-	14,475
Other commissions	17	277
Dividend income from listed investments	-	54
	143,366	39,430
Other revenue		
Management fees	602	633
Gain on disposal of subsidiaries	22,092	-
Surplus on revaluation of investment properties reversing deficit previously charged to the profit and loss account	220	11,386
Negative goodwill recognised	140	-
Bank interest income	463	358
Other income	6,074	-
	29,591	12,377
	172,957	51,807

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/(crediting):

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Auditors' remuneration	433	429
Cost of inventories sold	97,301	–
Depreciation*	3,929	2,883
Amortisation of goodwill of subsidiaries*	3,791	1,631
Negative goodwill recognised as income during the year**	(140)	–
Amortisation of trading rights*	343	285
Amortisation of self-developed software*	374	405
Loss on disposal of fixed assets, net	199	43
Provision for doubtful debts	574	240
Unrealised losses on revaluation of short term listed investments	23	1
Minimum lease payments under operating leases for land and buildings	2,834	1,270
Staff costs (including directors' remuneration – note 8) :		
Wages and salaries	14,097	11,922
Pension contributions	1,135	427
	<u>15,232</u>	<u>12,349</u>
Foreign exchange losses/(gains), net	245	(49)
Surplus on revaluation of investment properties	(220)	(11,386)
Gain on disposal of subsidiaries	(22,092)	–
Gain on disposal of short term listed investments	–	(10,282)
Dividend income from listed investments	–	(54)
Rental income, net	(11,048)	(7,003)
Interest income from loans receivable	(2,439)	(1,475)
Bank interest income	<u>(463)</u>	<u>(358)</u>

* Depreciation and the amortisation of goodwill of subsidiaries, trading rights and self-developed software for the year are shown on the face of the consolidated profit and loss account.

** The movements in negative goodwill recognised in the consolidated profit and loss account for the year are included in "Other revenue" on the face of the consolidated profit and loss account.

7. FINANCE COSTS

	Group	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Interest on bank loans and overdrafts wholly repayable within five years	4,485	4,465
Interest on finance leases	2	8
	<u>4,487</u>	<u>4,473</u>

8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to Section 161 of the Companies Ordinance and the Listing Rules is as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Fees:		
Executive directors	300	–
Independent non-executive directors	120	118
	<u>420</u>	<u>118</u>
Salaries, allowances and benefits in kind:		
Executive directors	1,760	1,499
	<u>2,180</u>	<u>1,617</u>

The remuneration of the directors fell within the following bands:

	2001	2000
	Number of	Number of
	directors	directors
Nil – HK\$1,000,000	4	6
HK\$1,000,001 – HK\$1,500,000	1	–
	<u>5</u>	<u>6</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, 68,282,085 share options were granted to the directors in respect of their services to the Group, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 16 to 17. No value in respect of the share options granted during the year has been charged to the profit and loss account.

9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2000: two) executive directors, further details of whose remuneration are disclosed in note 8 above. Details of the remuneration of the remaining three (2000: three) non-directors, highest paid employees are set out below:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and benefits in kind	<u>2,754</u>	<u>2,223</u>

The remuneration of the non-directors, highest paid employees fell within the following bands:

	2001	2000
	Number of	Number of
	employees	employees
Nil – HK\$1,000,000	2	2
HK\$1,000,001 – HK\$1,500,000	–	1
HK\$1,500,001 – HK\$2,000,000	1	–
	<u>3</u>	<u>3</u>

10. TAX

Hong Kong profits tax has been provided at the rate of 16% (2000: 16%) on the estimated assessable profits arising from Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Group:		
Hong Kong	140	301
Elsewhere	1,113	2
Overprovision in prior year	(27)	–
Deferred tax – note 35	(208)	706
	<u>1,018</u>	<u>1,009</u>
Tax charge for the year	<u><u>1,018</u></u>	<u><u>1,009</u></u>

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company is HK\$1,790,000 (2000: net loss of HK\$11,931,000).

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit from ordinary activities attributable to shareholders for the year of HK\$17,155,000 (2000: HK\$7,024,000) and on the weighted average of 1,169,261,000 (2000: 530,790,000) ordinary shares in issue during the year.

The diluted earnings per share is based on 1,185,097,000 ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 15,836,000 ordinary shares deemed to be issued at no consideration if all outstanding share options had been exercised. The effect of the warrants outstanding during the year was anti-dilutive; and accordingly, they had no impact on the calculation of the diluted earnings per share.

Diluted earnings per share for the year ended 31 December 2000 had not been calculated as there was no dilutive potential ordinary shares in that year.

13. FIXED ASSETS

Group

	Land and buildings <i>HK\$'000</i>	Leasehold improve- ments <i>HK\$'000</i>	Office furniture and equipment <i>HK\$'000</i>	Motor vehicle <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:					
At beginning of year	40,164	17,738	7,926	377	66,205
Exchange adjustments	–	(23)	(25)	(23)	(71)
Additions – note 38(f)	800	60	596	150	1,606
Acquisition of subsidiaries	–	565	912	–	1,477
Disposal of subsidiaries	–	(309)	(383)	(354)	(1,046)
Disposals	–	(540)	(5,040)	–	(5,580)
At 31 December 2001	<u>40,964</u>	<u>17,491</u>	<u>3,986</u>	<u>150</u>	<u>62,591</u>
Accumulated depreciation:					
At beginning of year	4,771	5,034	6,795	126	16,726
Exchange adjustments	–	(6)	(7)	(8)	(21)
Provided during the year	741	2,437	664	87	3,929
Acquisition of subsidiaries	–	205	284	–	489
Disposal of subsidiaries	–	(178)	(212)	(177)	(567)
Disposals	–	(291)	(4,766)	–	(5,057)
At 31 December 2001	<u>5,512</u>	<u>7,201</u>	<u>2,758</u>	<u>28</u>	<u>15,499</u>
Net book value:					
At 31 December 2001	<u><u>35,452</u></u>	<u><u>10,290</u></u>	<u><u>1,228</u></u>	<u><u>122</u></u>	<u><u>47,092</u></u>
At 31 December 2000	<u><u>35,393</u></u>	<u><u>12,704</u></u>	<u><u>1,131</u></u>	<u><u>251</u></u>	<u><u>49,479</u></u>

Company

	Office furniture and equipment <i>HK\$'000</i>
Cost:	
At beginning of year and 31 December 2001	<u>15</u>
Accumulated depreciation:	
At beginning of year	4
Provided during the year	<u>4</u>
At 31 December 2001	<u>8</u>
Net book value:	
At 31 December 2001	<u><u>7</u></u>
At 31 December 2000	<u><u>11</u></u>

In the prior year, the net book value of the fixed assets of the Group held under finance leases included a motor vehicle amounting to HK\$251,000.

The Group's land and buildings are held under long term leases and are situated in Hong Kong.

All of the Group's land and buildings are pledged to a bank to secure banking facilities granted to the Group.

Particulars details of the Group's land and buildings are set out on page 86.

14. INVESTMENT PROPERTIES

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
At beginning of year, at valuation	172,111	30,626
Acquisition of a subsidiary	6,400	123,706
Additions – note 38(f)	230	–
Exchange adjustments	62	(75)
Surplus arising from revaluation	21,207	17,854
	<u>200,010</u>	<u>172,111</u>
At 31 December, at valuation	<u>200,010</u>	<u>172,111</u>

At 31 December 2001, the Group's investment properties were revalued on an open market, existing use basis by Vigers Hong Kong Limited and Vigers (JB) Sdn. Bhd., independent registered professional surveyors. The investment properties are leased to third parties under operating leases, further summary details of which are included in note 40 to the financial statements.

All of the Group's investment properties are pledged to secure banking facilities granted to the Group.

The Group's investment properties are situated in Hong Kong, Malaysia and the PRC, and are held under the following lease terms:

	Hong Kong	Elsewhere	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Freehold	–	160,160	160,160
Long term leases	6,000	–	6,000
Medium term leases	13,570	20,280	33,850
	<u>19,570</u>	<u>180,440</u>	<u>200,010</u>
Net book value at 31 December 2001	<u>19,570</u>	<u>180,440</u>	<u>200,010</u>

Particulars details of the Group's investment properties are set out on pages 86 to 87.

15. PROPERTIES UNDER DEVELOPMENT

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Additions, at cost and at 31 December	<u>211,513</u>	<u>–</u>

Particulars of the Group's properties under development are set out on page 87.

16. GOODWILL AND NEGATIVE GOODWILL

SSAP 30 was adopted during the year, as detailed in note 2 to the financial statement. The amounts of the goodwill and negative goodwill capitalised as an asset or recognised in the consolidated balance sheet, arising from the acquisition of subsidiaries, are as follows:

	Group	
	Goodwill <i>HK\$'000</i>	Negative goodwill <i>HK\$'000</i>
Cost:		
At 1 January 2001	8,154	–
Acquisition of subsidiaries	19,802	(3,442)
Disposal of subsidiaries	(7,873)	–
	<u>20,083</u>	<u>(3,442)</u>
At 31 December 2001		
Accumulated amortisation/(recognition as income):		
At 1 January 2001	2,264	–
Amortisation provided/(recognised as income) during the year	3,791	(140)
Disposal of subsidiaries	(3,740)	–
	<u>2,315</u>	<u>(140)</u>
At 31 December 2001		
Net book value:		
At 31 December 2001	<u>17,768</u>	<u>(3,302)</u>
At 31 December 2000	<u>5,890</u>	<u>–</u>

17. INTERESTS IN SUBSIDIARIES

	Company	
	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Unlisted investments, at cost	5,000	5,000
Due from subsidiaries	493,317	215,667
Loans to subsidiaries	167,248	107,787
Due to subsidiaries	(4,417)	(2,109)
	<u>661,148</u>	<u>326,345</u>
Less: Provision for impairments	(138,106)	(138,106)
	<u>523,042</u>	<u>188,239</u>

The amounts due from/to subsidiaries are unsecured, interest-free and have no fixed terms of repayment.

The loans to subsidiaries are unsecured, repayable by 31 December 2002, and bear interest at prime rate.

Particulars of the subsidiaries at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Bakeland Company Limited	Hong Kong	HK\$1,512,000	–	94.45	Property holding
Beijing Kong Sheng Property Development Limited**	The People's Republic of China	Rmb96,856,560	–	90.10	Housing development
Best Spot Investments Limited **	Hong Kong	HK\$2	–	100	Investment holding
Coin Fall Limited	Hong Kong	HK\$6,000,000	–	80	Securities brokerage
Colour Choice Investments Limited	British Virgin Islands	US\$1	100	–	Investment holding
Count Wealth Investments Limited	British Virgin Islands	US\$1	100	–	Investment holding
Dual Aim Sdn. Bhd.**	Malaysia	MYR250,000	–	100	Housing development
Freedom Call Assets Limited	British Virgin Islands	US\$1	–	100	Investment holding
Great Star Associates Limited	British Virgin Islands	US\$1	100	–	Investment holding
Genesis Strategic (Holdings) Limited**	British Virgin Islands	US\$400	–	100	Investment holding
Genesis Global Strategies Limited**/**	Hong Kong	HK\$2	–	100	Operation not yet commenced
Genesis Management Services Limited**/**	Hong Kong	HK\$2	–	100	Operation not yet commenced
Genesis Global Ventures Limited**	British Virgin Islands	US\$100	–	100	Operation not yet commenced
Healthy Profit Enterprises Limited**	British Virgin Islands	US\$1	–	100	Operation not yet commenced
High Increase International Limited	British Virgin Islands	US\$1	100	–	Investment holding
Hua Chiao Development Limited	Hong Kong	HK\$2	–	100	Investment holding
Jiang Sun Group Pte Limited*	Singapore	S\$2	–	100	Property holding

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Kong Sun (China) Investment Limited	British Virgin Islands	US\$1	100	–	Investment holding
Kong Sun International Trading Limited	Hong Kong	HK\$2	–	100	Investment holding
Kong Sun Technology Limited	Hong Kong	HK\$2	–	100	Investment holding
Kong Sun Telecoms Limited	Hong Kong	HK\$2	–	100	Operation not yet commenced
Kong Sun Resources Limited	Hong Kong	HK\$2	–	100	Investment holding
Letham Limited*/**	Hong Kong	HK\$500,000	–	100	Provision of consultancy services
Pacpo Hong Kong Company Limited	Hong Kong	HK\$2	100	–	Property holding
Pacpo Investments Limited	Hong Kong	US\$2	100	–	Investment holding and provision of loan finance
Peace Hill Securities Company Limited	Hong Kong	HK\$5,000,000	100	–	Investment holding
Profitsun International Limited*/**	Hong Kong	HK\$2	–	100	Property investment
Pioneer Heritage Sdn. Bhd	Malaysia	MYR50,000,000	–	70	Property holding
Probuild Limited	British Virgin Islands	US\$1	100	–	Operation not yet commenced
Simply Success International Limited	British Virgin Islands	US\$1	–	100	Investment holding
Turbo Way Technology Limited	Hong Kong	HK\$40,000	–	65	IT consultancy
Techseek Limited	British Virgin Islands	US\$1	100	–	Operation not yet commenced
Win Johnson Investment Limited	Hong Kong	HK\$2	100	–	Provision of loan finance
Xswim (Holding) Limited**	British Virgin Islands	US\$1,000	–	60	Investment holding

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Xswim Technology Limited **	Hong Kong	HK\$2	–	60	Sales of Computers
北京連訊維安科技有限公司**	The People's Republic of China	Rmb1,000,000	–	60	Provision of IT technology services

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** Acquired/incorporated during the year.

18. INTERESTS IN ASSOCIATES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Share of net assets	54,247	–	–	–
Goodwill on acquisitions of associates	57,006	–	–	–
Amortisation provided during the year	(5,409)	–	–	–
Unamortised goodwill	51,597	–	–	–
Negative goodwill on acquisitions of associates	(981)	–	–	–
Recognised as income during the year	74	–	–	–
Unrecognised negative goodwill	(907)	–	–	–
Due from associates	9	–	9	–
	<u>104,946</u>	<u>–</u>	<u>9</u>	<u>–</u>

The amounts due from the associates are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the Group's associates at the balance sheet date are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of issued ordinary/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Grandy Applied Environmental Technology Corporation** (formerly Lotus Sea Holdings Limited)	Cayman Islands	HK\$86,667	–	20.25	Provision of environmental protection technology
China Anti-Flooding System Monitor Limited**	Samoa	US\$1	–	50	Provision of flooding protection technology
China Environmental System Monitor Limited**	Samoa	US\$1	–	50	Provision of environmental protection technology
Super Yield Management Company Limited**	British Virgin Islands	US\$1,000	–	33	Investment holding

* Not audited by Ernst & Young Hong Kong or other Ernst & Young International member firms.

** Acquired/incorporated during the year.

19. INTANGIBLE ASSETS

Group

	Self-developed software <i>HK\$'000</i>	Trading rights <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:			
At beginning of year	2,020	3,425	5,445
Disposal of subsidiaries	(2,020)	–	(2,020)
At 31 December 2001	–	3,425	3,425
Amortisation:			
At beginning of year	556	285	841
Provided during the year	374	343	717
Disposal of subsidiaries	(930)	–	(930)
At 31 December 2001	–	628	628
Net book value:			
At 31 December 2001	–	2,797	2,797
At 31 December 2000	1,464	3,140	4,604

20. LONG TERM INVESTMENT

	Group	
	2001 HK\$'000	2000 HK\$'000
Overseas unlisted equity investment, at cost	<u>21,982</u>	<u>21,982</u>

21. DEPOSITS AND ADVANCES

The balance comprised (i) the deposit paid for the purchase of a subsidiary which is engaged in property development and the advances made to a property developer on behalf of the subsidiary for the working capital of its development project, amounting to HK\$25,271,000 (2000: HK\$25,271,000) and (ii) the deposit of HK\$31,080,000 (2000: Nil) paid for the purchase of an additional interest in the overseas unlisted equity investment, currently classified as the Group's long term investment. As these acquisitions were not completed at the balance sheet date, they have been classified as non-current assets in the financial statements.

22. SHORT TERM INVESTMENTS

	Group	
	2001 HK\$'000	2000 HK\$'000
Hong Kong listed equity investments, at market value	<u>149</u>	<u>172</u>

23. INVENTORIES

	Group	
	2001 HK\$'000	2000 HK\$'000
Finished goods	<u>2,186</u>	<u>-</u>

24. TRADE RECEIVABLES

The aged analysis of trade receivables is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	16,655	363
1 – 3 months	7,867	263
3 – 6 months	1,011	26
6 – 12 months	61	49
Over 1 year	<u>3,734</u>	<u>3,734</u>
	29,328	4,435
Provision	<u>(3,734)</u>	<u>(3,734)</u>
Total net of provision	<u>25,594</u>	<u>701</u>

Invoices are normally payable within 30 days of issuance. The Group seeks to maintain strict control over its outstanding receivables and has credit control procedures in place to minimise credit risk. Overdue balances are regularly reviewed by senior management.

25. TRADE RECEIVABLES IN RESPECT OF SECURITIES TRANSACTIONS

	Group	
	2001 HK\$'000	2000 HK\$'000
Trade receivables in respect of securities transactions	3,305	7,172
Provision	(250)	(1,265)
	<u>3,055</u>	<u>5,907</u>

Trade receivables in respect of securities transactions are due for settlement two days after the transaction date. Except for the balances which have been provided for, all the remaining balances are current.

26. OTHER RECEIVABLES

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Other debtors	44,658	2,219	122	274
Prepayments and deposits	989	570	5,082	55
Tax recoverable	257	–	–	–
	<u>45,904</u>	<u>2,789</u>	<u>5,204</u>	<u>329</u>

27. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	Group		Company	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Cash and bank balances	15,076	12,864	80	717
Time deposits	24,011	3,869	20,003	–
	39,087	16,733	20,083	717
Less: Pledged time deposits:				
Pledged for bank overdraft facilities	(24,011)	(3,869)	(20,003)	–
Cash and cash equivalents	<u>15,076</u>	<u>12,864</u>	<u>80</u>	<u>717</u>

28. TRADE AND BILLS PAYABLES

An aged analysis of trade and bills payables as at the balance sheet date, based on payment due date, is as follows:

	Group	
	2001 HK\$'000	2000 HK\$'000
Current	18,496	–
1 – 3 months	10,427	–
4 – 6 months	270	–
Over 6 months	594	–
	<u>29,787</u>	<u>–</u>

29. TRADE PAYABLES IN RESPECT OF SECURITIES TRANSACTIONS

An aged analysis of trade payables is as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
1 – 3 months	<u>2,559</u>	<u>3,690</u>

30. OTHER PAYABLES AND ACCRUALS

		Group		Company	
	<i>Note</i>	2001	2000	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Accruals		22,606	6,957	5,173	1,437
Deposits received		435	2,528	–	–
Due to a director	31	<u>3,661</u>	<u>4,132</u>	<u>3,870</u>	<u>4,024</u>
		<u>26,702</u>	<u>13,617</u>	<u>9,043</u>	<u>5,461</u>

31. DUE TO A DIRECTOR

The amount due to a director is unsecured, interest-free and has no fixed terms of repayment.

32. INTEREST-BEARING BANK AND OTHER BORROWINGS

		Group		Company	
	<i>Note</i>	2001	2000	2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Bank overdrafts, secured		24,922	2,092	24,922	2,003
Current portion of finance lease payables	33	–	26	–	–
Current portion of bank loans and other loan	34	<u>3,596</u>	<u>1,875</u>	<u>3,596</u>	<u>792</u>
		<u>28,518</u>	<u>3,993</u>	<u>28,518</u>	<u>2,795</u>

33. FINANCE LEASE PAYABLES

At the balance sheet date, the total future minimum lease payments under finance leases and their present values, were as follows:

Group	Minimum lease payments 2001 <i>HK\$'000</i>	Minimum lease payments 2000 <i>HK\$'000</i>	Present value of minimum lease payments 2001 <i>HK\$'000</i>	Present value of minimum lease payments 2000 <i>HK\$'000</i>
Amounts payable:				
Within one year	–	26	–	24
In the second year	–	26	–	22
In the third to fifth years, inclusive	–	77	–	63
After five years	–	40	–	30
Total minimum finance lease payments	–	169	–	139
Future finance charges	–	(30)		
Total net finance lease payables	–	139		
Portion classified as current liabilities – note 32	–	(26)		
Long term portion	–	113		

SSAP 14 was revised and implemented during the year, as detailed in note 2 to the financial statements. Certain new disclosures are required and have been included above. The prior year comparative amounts for the new disclosures have also been included where appropriate.

34. INTEREST-BEARING BANK LOANS AND OTHER BORROWINGS

	<i>Note</i>	Group		Company	
		2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Bank loans, secured		24,258	18,000	24,258	18,000
Other loan, secured		104,000	26,004	–	–
		<u>128,258</u>	<u>44,004</u>	<u>24,258</u>	<u>18,000</u>
Bank loans repayable:					
Within one year or on demand		3,596	792	3,596	792
In the second year		3,958	879	3,958	879
In the third to fifth years, inclusive		7,146	3,261	7,146	3,261
After five years		9,558	13,068	9,558	13,068
		<u>24,258</u>	<u>18,000</u>	<u>24,258</u>	<u>18,000</u>
Other loan repayable:					
Within one year or on demand		–	1,083	–	–
In the second year		104,000	13,002	–	–
In the third to fifth years, inclusive		–	11,919	–	–
		<u>104,000</u>	<u>26,004</u>	<u>–</u>	<u>–</u>
		128,258	44,004	24,258	18,000
Portion classified as current liabilities	32	<u>(3,596)</u>	<u>(1,875)</u>	<u>(3,596)</u>	<u>(792)</u>
Long term portion, secured		<u>124,662</u>	<u>42,129</u>	<u>20,662</u>	<u>17,208</u>

The Group's bank loans are secured by mortgages over the Group's land and buildings and investment properties situated in Hong Kong and the PRC, which had an aggregate carrying value at the balance sheet date of approximately HK\$74,272,000.

The other loan is secured by a mortgage over the Group's investment property situated in Malaysia which had an aggregate carrying value at the balance sheet date of approximately HK\$160,160,000. The other loan bears interest at 2.5% above the bankers' base lending rate in Malaysia and is repayable in full on the maturity date in 2003.

All of the Group's time deposits amounting to HK\$24,011,000 (2000: HK\$3,869,000) were pledged to secure banking facilities.

35. DEFERRED TAX

		Group	
	<i>Note</i>	2001 HK\$'000	2000 HK\$'000
At 1 January		706	–
Exchange adjustment		3	–
(Credit)/charge for the year	10	(208)	706
At end of year		<u>501</u>	<u>706</u>

The principal components of the Group's provision for deferred tax and the amounts not provided for in these financial statements, are as follows:

	Group			
	Provided		Not provided	
	2001 HK\$'000	2000 HK\$'000	2001 HK\$'000	2000 HK\$'000
Accelerated capital allowances	501	706	674	974
Tax losses available for future relief	–	–	11,952	13,409
	<u>501</u>	<u>706</u>	<u>12,626</u>	<u>14,383</u>

The benefit of any future tax relief, which arises from losses previously incurred by the Company and certain of its subsidiaries, has not been included as an asset in the balance sheet because the directors consider it prudent not to recognise the benefit until it is assured beyond reasonable doubt.

Except for the unprovided benefit of any future tax relief, the Company had no other significant unprovided deferred tax as at the balance sheet date.

The revaluation of the Group's investment properties does not constitute a timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

36. SHARE CAPITAL

	Company	
	2001	2000
	HK\$'000	HK\$'000
Authorised:		
4,000,000,000 (2000: 1,000,000,000) ordinary shares of HK\$0.10 each	<u>400,000</u>	<u>100,000</u>
Issued and fully paid:		
2,055,184,836 (2000: 588,003,571) ordinary shares of HK\$0.10 each	<u>205,518</u>	<u>58,800</u>

Pursuant to an ordinary resolution passed on 30 May 2001, the authorised share capital of the Company was increased from HK\$100,000,000 to HK\$200,000,000 by the creation of 1,000,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

Pursuant to an ordinary resolution passed on 9 August 2001, the authorised share capital of the Company was increased from HK\$200,000,000 to HK\$400,000,000 by the creation of 2,000,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of the Company.

Movements in the issued and fully paid ordinary shares during the year were as follows:

	Notes	Carrying amount HK\$'000	Number of shares (in thousand)
At 1 January 2001		58,800	588,004
Issue of consideration shares	(a)	59,157	591,572
Issue of subscription shares	(b)	<u>87,561</u>	<u>875,609</u>
At 31 December 2001		<u>205,518</u>	<u>2,055,185</u>

Notes:

- (a) Pursuant to sale and purchase agreements dated 8 December 2000, 24 April 2001, 27 June 2001, 29 June 2001 and 31 July 2001, the Company allotted and issued 6,500,000, 50,000,000, 85,000,000, 260,000,000 and 190,072,223 ordinary shares of HK\$0.10 each of the Company at HK\$0.36, HK\$0.28, HK\$0.20, HK\$0.20 and HK\$0.18 per ordinary share, respectively, amounting to HK\$119,553,000, as part of the consideration for the acquisitions of certain subsidiaries and associates.
- (b) Pursuant to the subscription agreements dated 3 May 2001, 7 June 2001 and 19 September 2001, 303,858,720, 321,750,322 and 250,000,000 fully paid ordinary shares of HK\$0.10 each of the Company were issued at subscription prices of HK\$0.22, HK\$0.20 and HK\$0.30 per ordinary share, respectively, for an aggregate cash consideration of approximately HK\$206,198,983.

Share options

With effect from 7 July 2001, the Company operates a share option scheme (the "Scheme"), further details of which are also set out under the heading "Share option scheme" in the Report of the Directors on pages 16 to 17.

During the year, the Company granted a total of 68,282,085 share options under the Scheme for a nominal consideration of HK\$1 in total per grant. The share options granted entitle the holders to subscribe for shares of the Company at any time during the period from 9 January 2002 to 8 January 2007. The subscription price per share payable upon the exercise of these options is HK\$0.17984, subject to adjustment.

At the balance sheet date, the exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 68,282,085 additional ordinary shares of HK\$0.10 each for aggregate proceeds of HK\$12,277,000 before the related share issue expenses.

Warrants

A bonus issue of warrants was made in the proportion of one warrant for every five shares held by members on the register of members on 18 April 2000. A total of 117,600,714 warrants were issued pursuant to this bonus issue. Each warrant entitles the holder thereof to subscribe for one ordinary share of HK\$0.10 each at an initial subscription price of HK\$0.60 per share, payable in cash and subject to adjustment, from 26 April 2000 to 25 April 2002. No warrants were exercised for the year ended 31 December 2000.

During the year, no warrants were exercised and at the balance sheet date, the Company had 117,600,714 warrants outstanding. The exercise in full of such warrants would, under the present capital structure of the Company, result in the issue of 117,600,714 additional ordinary shares of HK\$0.10 each for aggregate proceeds of HK\$70,560,428 before the related share issue expenses.

37. RESERVES

	Share premium account <i>HK\$'000</i>	General reserves <i>HK\$'000</i>	Investment property revaluation reserve <i>HK\$'000</i>	Exchange fluctuation reserve <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Group						
At 1 January 2000	20,971	18,000	–	739	47,471	87,181
Exchange adjustments	–	–	–	(320)	–	(320)
Issue of shares	36,595	–	–	–	–	36,595
Share issue expenses	(30)	–	–	–	–	(30)
Net profit for the year	–	–	–	–	7,024	7,024
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2000 and 1 January 2001	57,536	18,000	–	419	54,495	130,450
Exchange adjustments	–	–	–	(3,947)	–	(3,947)
Issue of shares	179,034	–	–	–	–	179,034
Share issue expenses	(1,252)	–	–	–	–	(1,252)
Surplus on revaluation	–	–	11,543	–	–	11,543
Net profit for the year	–	–	–	–	17,155	17,155
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2001	<u>235,318</u>	<u>18,000</u>	<u>11,543</u>	<u>(3,528)</u>	<u>71,650</u>	<u>332,983</u>
			Share premium account <i>HK\$'000</i>		Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
Company						
At 1 January 2000			20,971		59,427	80,398
Issue of shares			36,595		–	36,595
Share issue expenses			(30)		–	(30)
Net loss for the year			–		(11,931)	(11,931)
			<u> </u>		<u> </u>	<u> </u>
At 31 December 2000 and 1 January 2001			57,536		47,496	105,032
Issue of shares			179,034		–	179,034
Share issue expenses			(1,252)		–	(1,252)
Net profit for the year			–		1,790	1,790
			<u> </u>		<u> </u>	<u> </u>
At 31 December 2001			<u>235,318</u>		<u>49,286</u>	<u>284,604</u>

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profits/(losses) retained by:		
The Company and subsidiaries	72,748	54,495
Associates	(1,098)	–
	<u>71,650</u>	<u>54,495</u>

38. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash (outflow)/inflow from operating activities

	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit from operating activities	32,912	13,530
Interest income	(2,902)	(1,833)
Dividend income from listed investments	–	(54)
Depreciation	3,929	2,883
Amortisation of intangible assets	717	690
Amortisation of goodwill	3,791	1,631
Goodwill recognised as income	(140)	–
Loss on disposal of fixed assets	199	43
Surplus on revaluation of investment properties	(220)	(11,386)
Gain on disposal of short term investments	–	(10,282)
Gain on disposal of a subsidiary	(22,092)	–
Loss on deemed disposal of an interest in an associate	150	–
Unrealised losses on revaluation of short term listed investments	23	1
Provision for doubtful debts	574	240
Increase in inventories	(1,791)	–
Decrease in properties held for sales	1,074	–
Increase in loans receivables	(33,061)	–
(Increase)/decrease in trade receivables	(21,023)	17,035
(Increase)/decrease in other receivables	(16,506)	7,975
Increase/(decrease) in trade payables	21,038	(14,823)
(Decrease)/increase in other payables	(3,876)	825
	<u>(37,204)</u>	<u>6,475</u>
Net cash (outflow)/inflow from operating activities	<u>(37,204)</u>	<u>6,475</u>

(b) Acquisition of subsidiaries

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Net assets acquired:		
Fixed assets	988	13,479
Investment properties	6,400	123,706
Inventories	395	–
Properties held for sale	30,038	–
Trade receivables	2,113	239
Other receivables	2,233	–
Cash and bank balances	8,670	–
Trade payables	(7,647)	–
Other payables and accruals	(19,188)	(7,643)
Other long term loan	–	(25,875)
Minority interests	(353)	(46,981)
	<u>23,649</u>	<u>56,925</u>
Goodwill arising on acquisitions	19,802	–
	<u>43,451</u>	<u>56,925</u>
Satisfied by:		
Cash paid	10,911	–
Issue of share capital	32,540	56,925
	<u>43,451</u>	<u>56,925</u>

The analysis of the net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries is as follows:

	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Cash paid	(10,911)	–
Cash and bank balances acquired	8,670	–
	<u>(2,241)</u>	<u>–</u>
Net outflow of cash and cash equivalents in respect of the acquisition of subsidiaries	<u>(2,241)</u>	<u>–</u>

The subsidiaries acquired during the year contributed HK\$3,598,000 to the Group's net operating cash flows, but had no significant impact in respect of the net returns on investments and servicing of finance, the financing activities, the investing activities and tax.

In respect of cash flows for the prior year, the subsidiary acquired during that year contributed HK\$2,103,000 to the Group's net operating cash flows, paid HK\$1,852,000 in respect of the net returns on investments and servicing of finance, but had no significant impact in respect of the financing activities, the investing activities and tax.

The subsidiaries acquired contributed HK\$110,993,000 to the Group's turnover and HK\$8,883,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2001.

The subsidiaries acquired in the prior year contributed HK\$8,965,000 to the Group's turnover and HK\$6,041,000 to the consolidated profit after tax and before minority interests for the year ended 31 December 2000.

(c) Purchase of an additional interest in a subsidiary during the year

	2001 <i>HK\$'000</i>
Reclassification of an interest in the subsidiary, previously accounted for as minority interest	21,597
Negative goodwill arising on acquisition	(3,442)
	<u>18,155</u>
Satisfied by:	
Cash paid	142
Issue of share capital	18,013
	<u>18,155</u>
	2001 <i>HK\$'000</i>
Net outflow of cash and cash equivalents in respect of the purchase of an additional interest in a subsidiary	<u>(142)</u>

(d) Disposal of subsidiaries

	2001 <i>HK\$'000</i>
Net assets disposed of:	
Fixed assets	479
Intangible assets	1,090
Trade receivables	521
Other receivables	881
Bank overdrafts	(338)
Trade and bills payables	(29)
Other payables and accruals	(4,227)
Finance lease payables	(103)
Minority interests	501
	<u>(1,225)</u>
Unamortised goodwill disposed of	4,133
	2,908
Gain on disposal of subsidiaries	<u>22,092</u>
	<u>25,000</u>
Satisfied by:	
Cash receivable	<u>25,000</u>

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

	2001 <i>HK\$'000</i>
Bank overdrafts disposed of	<u>338</u>

The subsidiaries disposed of during the year contributed HK\$365,000 to the Group's net operating cash flows, but had no significant impact in respect of the cash flows for investing activities, financing activities, net returns on investments and servicing of finance and tax.

The results of the subsidiaries disposed of during the year had no significant impact on the Group's consolidated turnover or profit after tax for the year.

(e) Analysis of changes in financing during the year

	Issued capital (including share premium account) HK\$'000	Finance lease payables HK\$'000	Interest bearing bank loans and other loans HK\$'000	Minority interests HK\$'000
Balance at 1 January 2000	59,441	174	–	5,188
Cash inflow/(outflow) from financing, net	(30)	(35)	18,129	–
Share of profit for the year	–	–	–	1,024
Share of revaluation reserve	–	–	–	6,468
Acquisition of subsidiaries	56,925	–	25,875	46,981
Dividends	–	–	–	(2,400)
Balance at 31 December 2000 and 1 January 2001	116,336	139	44,004	57,261
Exchange adjustments	–	(8)	(4)	678
Cash inflow/(outflow) from financing, net	204,947	(28)	84,258	–
Share of profit for the year	–	–	–	3,819
Share of revaluation reserve	–	–	–	9,444
Acquisition of subsidiaries	119,553	–	–	353
Acquisition of an additional interest in a subsidiary	–	–	–	(21,597)
Disposal of subsidiaries	–	(103)	–	501
Advances from a minority shareholder	–	–	–	38,981
	<u>440,836</u>	<u>–</u>	<u>128,258</u>	<u>89,440</u>

(f) Major non-cash transactions

- (i) As further detailed in note 36 to the financial statements, during the year, the Company issued and allotted 591,572,223 new ordinary shares of HK\$0.10 each, credited as fully paid, aggregating approximately HK\$119,553,000, as part of the consideration for the acquisitions of subsidiaries and associates.
- (ii) During the year, the Group acquired an investment property and a leasehold property at the then fair market value of HK\$230,000 and HK\$800,000, respectively, from a debtor as settlement for a loan receivable of HK\$1,030,000.

39. CONTINGENT LIABILITIES

The Group did not have any contingent liabilities at the balance sheet date.

At the balance sheet date, the Company had contingent liabilities in respect of guarantees amounting to HK\$18,000,000 (2000: HK\$5,000,000) given to a bank for the general banking facilities granted to a subsidiary of the Company.

40. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (note 14 to the financial statements) under operating lease arrangements, with leases negotiated for terms ranging from 1 to 3 years. The terms of the leases generally also require the tenants to pay security deposits and provide for periodic rent adjustments according to the then prevailing market conditions.

At 31 December 2001, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	8,956	7,736
In the second to fifth years, inclusive	6,881	11,167
	<u>15,837</u>	<u>18,903</u>

(b) As lessee

The Group leases certain of its office properties under operating lease arrangements.

Leases for properties are negotiated for terms ranging from one to five years. At 31 December 2001, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i> (Restated)
Within one year	1,188	708
In the second to fifth years, inclusive	392	358
	<u>1,580</u>	<u>1,066</u>

SSAP 14 (Revised), which was adopted during the year, requires lessors under operating leases to disclose the total future minimum operating lease receivables under non-cancellable operating leases, as detailed in note (a) above. This disclosure was not previously required. SSAP 14 (Revised) also requires lessees under operating leases to disclose the total future minimum operating lease payments, rather than only the payments to be made during the next year as was previously required. Accordingly, the prior year comparative amounts for operating leases as lessee in note (b) above, have been restated to accord with the current year's presentation.

41. COMMITMENTS

In addition to the operating lease commitments detailed in note 40(b) above, the Group and the Company had the following commitments at the balance sheet date:

(a) Capital commitments

At 31 December 2001, the Group had contracted capital commitments amounting to HK\$53,188,000 (2000: HK\$5,924,000). Included in the contracted commitments as at 31 December 2000 was an amount of HK\$2,340,000 for the acquisition of the shares in Healthy Profit Enterprise Limited.

At the balance sheet date, the Company had no material contracted capital commitments (2000: Nil).

(b) Other commitments

	Company	
	2001	2000
	<i>HK\$'000</i>	<i>HK\$'000</i>
Commitments under a non-cancellable consultancy agreement	<u>460</u>	<u>1,750</u>

42. CONNECTED AND RELATED PARTY TRANSACTIONS

Save as disclosed elsewhere in these financial statements, listed below are connected transactions disclosed in accordance with Chapter 14 of the Listing Rules and related party transactions disclosed in accordance with SSAP 20 “Related party disclosures”.

The transactions referred to in items (i) to (iii) below constitute connected transactions disclosed under the Listing Rules and those referred to in all items below constitute related party transactions.

	<i>Notes</i>	Group	
		2001	2000
		<i>HK\$'000</i>	<i>HK\$'000</i>
Proceeds received from Kong Fa for subscription of shares	(i)	206,199	–
Acquisition of a 15% (2000: 55%) interest in Pioneer Heritage Sdn. Bhd. (“Pioneer”) from Kong Sun Enterprise Sdn. Bhd. (“KSE”)	(ii)	18,013	56,925
Acquisition of all the issued shares in Dual Aim Sdn. Bhd. (“Dual Aim”) from KSE	(iii)	16,200	–
Rental subsidy receivable from Mr. and Mrs. Kong	(iv)	231	817
Management fees received from Equal Gain Sdn. Bhd. (“Equal Gain”) in which KSE has a controlling equity interest	(v)	–	398
Management fees payable to Equal Gain	(vi)	<u>499</u>	<u>499</u>

Notes:

- (i) On 3 May 2001, the Company entered into a placing and subscription agreement pursuant to which Kong Fa, a substantial shareholder of the Company, placed 60,000,000 existing ordinary shares of the Company to independent professional and institutional investors at a price of HK\$0.22 per share. On the same date, the Company issued and allotted 303,858,720 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 1 June 2001. Details of the transaction were also set out in the Company’s circular dated 14 May 2001.

On 7 June 2001, the Company entered into a placing and subscription agreement with Kong Fa and Coin Fall Limited (“Coin Fall”), a subsidiary of the Company. Under this agreement, Kong Fa through Coin Fall placed 100,000,000 existing ordinary shares of the Company to independent professional and institutional investors at a price of HK\$0.20 per share. On the same date, the Company issued and allotted 321,750,322 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 18 July 2001. Details of the transaction were also set out in the Company’s circular dated 22 June 2001.

On 19 September 2001, the Company entered into a placing and subscription agreement with Kong Fa pursuant to which Kong Fa placed 50,000,000 existing ordinary shares of the Company to independent professional and institutional investors at a price of HK\$0.30 per share. On the same date, the Company issued and allotted 250,000,000 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 26 October 2001. Details of the transaction were also set out in the Company’s circular dated 9 October 2001.

- (ii) On 31 July 2001, the Group entered into a conditional sale and purchase agreement with KSE, a Malaysian company wholly-owned by Mr. Kong Look Sen (“Mr. Kong”), a director of the Company and his immediate family, to acquire an additional 15% interest in Pioneer at a consideration of HK\$18,013,000, which was satisfied by the issue and allotment of 100,072,223 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.18 per share. The transaction was completed on 19 October 2001. Details of the transaction were also set out in the Company’s circular dated 20 September 2001.

In the prior year, the Group acquired from KSE a 55% interest in Pioneer at a consideration of HK\$56,925,000, which was satisfied by the issue and allotment of 203,303,571 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.28 per share.

- (iii) On 31 July 2001, the Group entered into a conditional sale and purchase agreement with KSE to acquire the entire equity interest in Dual Aim at a consideration of HK\$16,200,000, which was satisfied by the issue and allotment of 90,000,000 new ordinary shares of HK\$0.10 each by the Company at a price of HK\$0.18 per share. The transaction was completed on 19 October 2001. Details of the transaction were also set out in the Company's circular dated 20 September 2001.
- (iv) In 1999, the Group acquired all the issued shares in a subsidiary from Mr. Kong and his immediate family who guaranteed the Group that the annual rental yield deriving from the property held by the subsidiary would not be less than 8% per annum for two years commencing from the date of the completion of the acquisition. Accordingly, a rental subsidy of HK\$231,000 (2000: HK\$817,000) is receivable from Mr. and Mrs. Kong for the shortfall, as accrued at the balance sheet date, and is included in other receivables.
- (v) In the prior year, certain employees of the Group provided management services to Equal Gain and management fees were received based on their costs plus a mark-up.
- (vi) Monthly management service fee of MYR20,000 is paid to Equal Gain for the marketing and management services provided to a subsidiary of the Group in Malaysia.

43. POST BALANCE SHEET EVENTS

On 4 February 2002, a conditional placing and subscription agreement was entered into between the Company, Kong Fa and a wholly-owned subsidiary of Beijing Enterprises Holdings Limited ("Beijing Enterprises"), a company incorporated and publicly listed in Hong Kong. Pursuant to the agreement, Kong Fa agreed to place 100,000,000 existing ordinary shares of the Company to Beijing Enterprises; and to subscribe for 300,000,000 new ordinary shares of the Company, both at HK\$0.32 per share. The subscription of shares by Kong Fa constituted a connecting transaction under the Listing Rules. The transaction was completed on 26 March 2002. Details of the transaction were also set out in the Company's circular dated 27 February 2002.

44. COMPARATIVE AMOUNTS

As further explained in note 2 to the financial statements, due to the adoption of certain new and revised SSAPs during the current year, the accounting treatment and presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain comparative amounts have been reclassified to conform with the current year's presentation.

45. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 22 April 2002."

4. OTHER INFORMATION

- (a) As disclosed in the interim report of Kong Sun for the six months ended 30th June, 2002, Kong Sun granted 68,282,085 share options at an exercise price of HK\$0.17984 to the eligible employees on 7th July, 2001. Details were as follows:

Name of Kong Sun Directors	Number of share options granted as at 30th June, 2002	Date of grant of share options	Exercisable period of share options	Consideration paid upon acceptance of the share options	Exercise price of share options HK\$	Price of Kong Sun Shares at grant date HK\$
Kong Look Sen	22,760,695	7th July, 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23
Kong Li Jer	22,760,695	7th July, 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23
Kong Li Szu	22,760,695	7th July, 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23

Save as disclosed, no other outstanding options, warrants and conversion rights affecting Kong Sun Shares as at 30th June, 2002 was disclosed in the interim report of Kong Sun for the six months ended 30th June, 2002.

- (b) As disclosed in the annual report of Kong Sun for the year ended 31st December, 2001, Kong Sun has changed the authorised share capital as followed:
- (i) Pursuant to an ordinary resolution passed on 30th May, 2001, the authorised share capital of Kong Sun was increased from HK\$100,000,000 to HK\$200,000,000 by the creation of 1,000,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of Kong Sun.
- (ii) Pursuant to an ordinary resolution passed on 9th August, 2001, the authorised share capital of Kong Sun was increased from HK\$200,000,000 to HK\$400,000,000 by the creation of 2,000,000,000 additional shares of HK\$0.10 each, ranking pari passu in all respects with the existing share capital of Kong Sun.

Save as disclosed, no other re-organisation of capital was disclosed in the annual reports of Kong Sun for the year ended 31st December, 2000 and 31st December, 2001 and interim report for the six months ended 30th June, 2002.

- (c) As disclosed in the interim report of Kong Sun dated 19th September, 2002, as at 30th June, 2002, Kong Sun had trade and bills payables of approximately HK\$28.5 million, interest-bearing banks loans and other borrowings of approximately HK\$132.4 million, finance lease payables of approximately HK\$238,000.

As at 30th June, 2002, the Kong Sun Group did not have any significant contingent liabilities. As at 30th June, 2002, Kong Sun had contingent liabilities in respect of guarantees amounting to HK\$24.0 million given to banks for the general banking facilities granted to subsidiaries of Kong Sun.

(d) The following contracts entered into by Kong Sun and its subsidiaries (not being contracts entered into in the ordinary course of the business) were disclosed in the annual reports of Kong Sun for the years ended 31st December, 2000 and 31st December, 2001 and are or may be material:

(i) On 8th December, 2000, the Kong Sun Group entered into a conditional sale and purchase agreement with Mr. So Hon Leung, Alvin, an independent third party, to acquire all the issued shares in Healthy Profit Enterprise Limited, which holds a 50% equity interest in Genesis Strategic (Holdings) Limited, at a consideration of HK\$4,000,000. HK\$1,160,000 of the consideration was settled in cash upon the execution of the agreement by way of deposit and partial payment. Part of the consideration of HK\$2,340,000 will be settled by the issue of 6,500,000 new ordinary shares of Kong Sun at HK\$0.36 each and the remaining consideration of HK\$500,000 will be settled in cash upon completion. The acquisition was completed on 9th January, 2001.

(ii) On 3rd May, 2001, Kong Sun entered into a placing and subscription agreement pursuant to which Kong Fa Holding Limited (“Kong Fa”), a substantial shareholder of Kong Sun, placed 60,000,000 existing ordinary shares of Kong Sun to independent professional and institutional investors at a price of HK\$0.22 per share. On the same date, Kong Sun issued and allotted 303,858,720 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 1st June, 2001. Details of the transaction were also set out in Kong Sun’s circular dated 14th May, 2001.

On 7th June, 2001, Kong Sun entered into a placing and subscription agreement with Kong Fa and Coin Fall Limited (“Coin Fall”), a subsidiary of Kong Sun. Under this agreement, Kong Fa through Coin Fall placed 100,000,000 existing ordinary shares of Kong Sun to independent professional and institutional investors at a price of HK\$0.20 per share. On the same date, Kong Sun issued and allotted 321,750,322 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 18th July, 2001. Details of the transaction were also set out in Kong Sun’s circular dated 22nd June, 2001.

On 19th September, 2001, Kong Sun entered into a placing and subscription agreement with Kong Fa pursuant to which Kong Fa placed 50,000,000 existing ordinary shares of Kong Sun to independent professional and institutional investors at a price of HK\$0.30 per share. On the same date, Kong Sun issued and allotted 250,000,000 new ordinary shares to Kong Fa at the same placing price. The transaction was completed on 26th October, 2001. Details of the transaction were also set out in Kong Sun’s circular dated 9th October, 2001.

- (iii) On 31st July, 2001, the Group entered into a conditional sale and purchase agreement with Kong Sung Enterprise Sdn. Bhd. (“KSE”), a Malaysian company wholly-owned by Mr. Kong Look Sen, a director of Kong Sun and his immediate family, to acquire an additional 15% interest in Pioneer Heritage Sdn. Bhd. (“Pioneer”) at a consideration of HK\$18,013,000, which was satisfied by the issue and allotment of 100,072,223 new ordinary shares of HK\$0.10 each by Kong Sun at a price of HK\$0.18 per share. The transaction was completed on 19th October, 2001. Details of the transaction were also set out in Kong Sun’s circular dated 20th September, 2001.

In the prior year, the Kong Sun Group acquired from KSE a 55% interest in Pioneer at a consideration of HK\$56,925,000, which was satisfied by the issue and allotment of 203,303,571 new ordinary shares of HK\$0.10 each by Kong Sun at a price of HK\$0.28 per share.

- (iv) On 31st July, 2001, the Kong Sun Group entered into a conditional sale and purchase agreement with KSE to acquire the entire equity interest in Dual Aim Sdn. Bhd. at a consideration of HK\$16,200,000, which was satisfied by the issue and allotment of 90,000,000 new ordinary shares of HK\$0.10 each by Kong Sun at a price of HK\$0.18 per share. The transaction was completed on 19th October, 2001. Details of the transaction were also set out in Kong Sun’s circular dated 20th September, 2001.
- (v) On 4th February, 2002, a conditional placing and subscription agreement was entered into between Kong Sun, Kong Fa and a wholly-owned subsidiary of Beijing Enterprises Holdings Limited (“Beijing Enterprises”), a company incorporated and publicly listed in Hong Kong. Pursuant to the agreement, Kong Fa agreed to place 100,000,000 existing ordinary shares of Kong Sun to Beijing Enterprises; and to subscribe for 300,000,000 new ordinary shares of Kong Sun, both at HK\$0.32 per share. The subscription of shares by Kong Fa constituted a connecting transaction under the Listing Rules. The transaction was completed on 26th March, 2002. Details of the transaction were also set out in Kong Sun’s circular dated 27th February, 2002.

Save as disclosed, no material contracts (not being contracts entered into in the ordinary course of the business) were disclosed in the annual reports of Kong Sun for the years ended 31st December, 2000 and 31st December, 2001 and interim report for six months ended 30th June, 2002.

- (e) No material litigation was disclosed in the annual reports of Kong Sun for the year ended 31st December, 2000 and 31st December, 2001 and interim report for six months ended 30th June, 2002.

RESPONSIBILITY STATEMENT

The directors of the Offeror jointly and severally accept full responsibility for the accuracy of the information contained in this document (except for the information about ICN and Kong Sun contained in this document which has been extracted from public sources and has not been independently verified) and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this document have been arrived at after due and careful consideration and there are no other facts not contained in this document, the omission of which would make any statement in this document misleading.

The information relating to ICN in this document has been extracted from the published prospectus, interim report and quarterly report of ICN dated 20th November, 2001, 15th March, 2002 and 31st May, 2002, respectively. The directors of the Offeror jointly and severally take full responsibility for the accurate extraction of information and confirm that such extraction is not misleading.

The information relating to Kong Sun in this document has been extracted from the annual report, circular and interim report of Kong Sun dated 22nd April, 2002, 27th February, 2002 and 19th September, 2002, respectively. The directors of the Offeror jointly and severally take full responsibility for the accurate extraction of information and confirm that such extraction is not misleading.

MARKET PRICES**(a) ICN:**

The ICN Shares are listed on the GEM. Trading in the ICN Shares was suspended at the request of ICN on 12th August, 2002 and was resumed on 18th September, 2002. The table below shows the closing prices of the ICN Shares on the GEM on the last day on which trading took place in each of the six calendar months immediately preceding the date of the Announcement, on the last trading day before the Announcement and on the Latest Practicable Date:

	Price <i>HK\$</i>
2002	
28th February	0.35
28th March	0.26
30th April	0.235
31st May	0.229
28th June	0.138
31st July	0.098
9th August (Last day on which ICN Shares were traded immediately before the date of the Announcement)	0.102
30th September	0.10
Latest Practicable Date	0.10

The highest and lowest closing market prices for the ICN Shares recorded on the GEM between 5th March, 2002 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK\$0.32 recorded on 9th May, 2002 and HK\$0.071 recorded on 29th July, 2002.

(b) Kong Sun:

The Kong Sun Shares are listed on the Main Board of the Stock Exchange. The table below shows the closing prices of the Kong Sun Shares on the Stock Exchange on the last day on which trading took place in each of the six calendar months immediately preceding the date of the Announcement, on the last trading day before the Announcement and on the Latest Practicable Date:

	Price <i>HK\$</i>
2002	
28th February	0.385
28th March	0.385
30th April	0.38
31st May	0.30
28th June	0.30
31st July	0.28
30th August	0.27
5th September (the date of the Announcement)	0.25
30th September	0.248
Latest Practicable Date	0.244

The highest and lowest closing market prices for the Kong Sun Shares recorded on the Stock Exchange between 5th March, 2002 (being the date six months prior to the date of the Announcement) and the Latest Practicable Date were HK\$0.445 recorded on 15th March, 2002 and HK\$0.236 recorded on 18th September, 2002.

DISCLOSURE OF INTERESTS**(a) ICN:**

- (i) As at the Latest Practicable Date, the Offeror and parties acting in concert with it did not own or had control, directly or indirectly, over any ICN Shares.
- (ii) As at the Latest Practicable Date, Capital Ace, the only Shareholder which has irrevocably accepted the Offer, was interested in 25,138,080 ICN Shares. Capital Ace is a subsidiary of Digital World. Accordingly, Digital World had a deemed interest in the 25,138,080 ICN Shares held by Capital Ace.

(b) Kong Sun:

(i) As at the Latest Practicable Date, the shareholding of Kong Sun was as follows:

	Kong Sun Shares	%
Kong Fa Holding Limited (<i>Note</i>)	1,029,600,042	42.7
Kong Sun Enterprise Sdn. Bhd.	393,375,794	16.3
Offeror	83,724,000	3.5
Public	<u>904,485,000</u>	<u>37.5</u>
	<u><u>2,411,184,836</u></u>	<u><u>100.0</u></u>

Note: Mr. Kong Li Szu is a director and shareholder of Kong Fa Holding Limited.

(ii) As at the Latest Practicable Date, Mr. Kong Li Szu had the following share options under the share option scheme of Kong Sun:

Name of Directors	Number of share options granted as at 30 June 2002	Date of grant of share options	Exercisable period of share options	Consideration paid upon acceptance of the share options	Exercise price of share options <i>HK\$</i>	Price of Kong Sun Shares at grant date of options <i>HK\$</i>
Kong Li Szu	22,760,695	7 July 2001	9-1-2002 to 31-5-2006	HK\$1	0.17984	0.23

(iii) As at the Latest Practicable Date, Mr. Kong Li Szu had interests in Grandy Applied Environmental Technology Corporation, an associate of Kong Sun, as follows:

Name of director	Nature of interest	Number of ordinary shares of HK\$0.01 each
Kong Li Szu	Corporate (<i>Note</i>)	119,229,995

Note: The interests in 119,229,995 shares being held by Count Wealth Investments Limited, a wholly-owned subsidiary of Kong Sun, of which Mr. Kong Li Szu is a director.

(iv) As at the Latest Practicable Date, none of Capital Ace nor Digital World had any interest in Kong Sun Shares.

(c) Miscellaneous disclosures of interests

- (i) No payment or other benefit will be made or given to any directors of ICN as compensation for loss of office or otherwise in connection with the Offer;
- (ii) There is no arrangement or indemnity between the Offeror, or any person acting in concert with it and any other person of the kind as described in note 8 to Rule 22 of the Takeovers Code;
- (iii) As at the Latest Practicable Date, there was no agreement, arrangement or understanding between the Offeror and any other person for the transfer of the beneficial interest in ICN Shares acquired by the Offeror under the Offer;
- (iv) As at the Latest Practicable Date, there was no agreement, arrangement or understanding (including any compensation arrangement) between the Offeror or any person acting in concert with it and any of the directors, recent directors, shareholders or recent shareholders of ICN having any connection with or dependence upon the Offer; and
- (v) None of the directors of the Offeror will be affected in terms of their respective emoluments by the acquisition of ICN or by any other associated transaction.

DEALINGS IN ICN SHARES

- (a) None of the Offeror, its directors, or parties acting in concert with the Offeror has any interest in ICN Shares or has dealt therein during the period commencing 5th March, 2002 (six months prior to the date of the Announcement) and ending on the Latest Practicable Date;
- (b) None of Capital Ace and Digital World has dealt in ICN Shares during the period commencing 5th March, 2002 (six months prior to the date of the Announcement) and ending on the Latest Practicable Date; and
- (c) Somerley does not have any beneficial interest in ICN Shares and has not dealt in any ICN Shares during the period commencing 5th March, 2002 (six months prior to the date of the Announcement) and ending on the Latest Practicable Date.

DEALINGS IN KONG SUN SHARES

(a) Dealings in Kong Sun Shares by the Offeror during the period commencing 5th March, 2002 (six months prior to the date of the Announcement) and ending on the Latest Practicable Date are as follows:

(i) *Disposals*

Date	Price per Kong Sun Share (HK\$)	Number of Kong Sun Shares
10th June, 2002	0.375	1,556,000*
8th July, 2002	0.295	1,600,000
15th July, 2002	0.290	56,000
	0.285	44,000
16th July, 2002	0.285	44,000
22nd July, 2002	0.270	500,000
25th July, 2002	0.285	500,000
	0.270	500,000
26th July, 2002	0.275	1,000,000
29th July, 2002	0.280	500,000
30th July, 2002	0.285	500,000
31st July, 2002	0.275	500,000
1st August, 2002	0.275	500,000
2nd August, 2002	0.270	500,000
5th August, 2002	0.270	500,000
6th August, 2002	0.275	500,000
7th August, 2002	0.260	500,000
8th August, 2002	0.250	2,100,000
9th August, 2002	0.255	500,000
12th August, 2002	0.255	500,000
13th August, 2002	0.260	500,000
14th August, 2002	0.260	500,000
15th August, 2002	0.260	500,000
16th August, 2002	0.260	500,000
19th August, 2002	0.255	500,000
20th August, 2002	0.250	500,000
21st August, 2002	0.250	500,000
22nd August, 2002	0.249	400,000
	0.245	100,000
23rd August, 2002	0.249	500,000
26th August, 2002	0.250	500,000
27th August, 2002	0.265	50,000
	0.260	200,000

Date	Price per Kong Sun Share (HK\$)	Number of Kong Sun Shares
28th August, 2002	0.265	750,000
29th August, 2002	0.260	500,000
30th August, 2002	0.249	500,000
2nd September, 2002	0.265	500,000
3rd September, 2002	0.255	500,000
4th September, 2002	0.250	500,000
5th September, 2002	0.250	500,000
6th September, 2002	0.249	2,100,000
9th September, 2002	0.250	500,000
10th September, 2002	0.248	500,000
11th September, 2002	0.255	500,000
12th September, 2002	0.249	500,000
13th September, 2002	0.248	200,000
	0.247	20,000,000*
	0.247	19,000,000*
25th September, 2002	0.245	776,000
30th September, 2002	0.250	3,300,000*
7th October, 2002	0.248	3,000,000
		<u>72,276,000</u>

(ii) Acquisitions

Date	Price per Kong Sun Share (HK\$)	Number of Kong Sun Shares
29th April, 2002	0.075	55,000,000*
	0.075	40,000,000*
	0.075	5,000,000*
10th May, 2002	0.375	56,000,000*
		<u>156,000,000</u>

Note: Save for the dealings marked with* which are off-market transactions, all dealings shown above are done on the market.

(b) Dealings in Kong Sun Shares by Mr. Kong Li Szu through his interests in Kong Fa Holdings Limited, the controlling shareholding of Kong Sun, during the period commencing 5th March, 2002 (six months prior to the date of the Announcement) and ending on the Latest Practicable Date are as follows:

(i) *Disposals:*

Date	Price per Kong Sun Share (HK\$)	Number of Kong Sun Shares
20th June, 2002	0.29	30,000,000
21st June, 2002	0.285	8,000,000
24th June, 2002	0.315	3,000,000
	0.30	8,000,000
26th June, 2002	0.315	1,000,000
24th July, 2002	0.275	20,000,000
25th July, 2002	0.27	2,978,000
15th August, 2002	0.255	1,200,000
		<hr/>
		74,178,000
		<hr/> <hr/>

(ii) *Acquisitions*

Date	Price per Kong Sun Share (HK\$)	Number of Kong Sun Shares
29th May, 2002	0.32	300,000,000
29th July, 2002	0.28	3,000,000
30th July, 2002	0.285	1,500,000
	0.28	4,000,000
31st July, 2002	0.28	5,000,000
	0.275	500,000
1st August, 2002	0.28	3,000,000
7th August, 2002	0.26	12,870,000
8th August, 2002	0.26	70,000
	0.255	3,130,000
	0.25	2,540,000
9th August, 2002	0.255	6,000,000
26th September, 2002	0.249	100,000
	0.248	400,000
	0.247	100,000
	0.25	2,000,000
	0.245	200,000
27th September, 2002	0.249	2,500,000
30th September, 2002	0.249	3,100,000
	0.248	410,000
2nd October, 2002	0.244	2,000,000
	0.243	300,000
3rd October, 2002	0.244	4,000,000
		<hr/>
		356,720,000
		<hr/> <hr/>

Save as disclosed above, none of the directors of the Offeror nor parties acting in concert with it has any interest in Kong Sun Shares or has dealt therein during the period commencing 5th March, 2002 (six months prior to the date of the Announcement) and on the Latest Practicable Date; and

- (c) None of Capital Ace and Digital World has dealt in Kong Sun Shares during the period commencing 5th March, 2002 (six months prior to the date of the Announcement) and ending on the Latest Practicable Date.

DETAILS OF DIRECTORS OF THE OFFEROR

Name	Address	Nationality
Mr. Yu Shu Kuen	2nd Floor, 10 Osmanthus Road, Yau Yat Chuen, Kowloon, Hong Kong	British
Mr. Benjamin Fu Hau Fai	Apartment A-5, Pine Court, 5 Old Peak Road, Hong Kong	Canadian
Mr. Kong Li Szu	Flat K, 1st Floor, Crescent Heights, No.3 Tung Shan Terrace, Hong Kong	Singapore
Mr. Chan Yau Kit, Eric	Flat E, 2nd Floor, Tower 1, Euston Court, 6 Park Road, Hong Kong	Chinese

GENERAL

- (a) The principal office and place of business in Hong Kong of the Offeror is 13th Floor, Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong.
- (b) Kong Sun is a company incorporated in Hong Kong on 13th June, 1955.

- (c) The names and addresses of the controlling shareholders of the Offeror and the principal parties acting in concert with it are as follows:

Name	Name of directors	Address
Koffman Financial	Mr. Yu Shu Kuen Mr. Fu Hau Fai, Benjamin Ms. Yu Man Fung, Alice	11-13/F Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong
Peace Hill	Mr. Kong Look Sen Mr. Kong Li Jer Mr. Kong Li Szu Ms. Soo Lee Eng	Units 9-10, 13/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong
JRB Limited	Mr. Yu Shu Kuen Mr. Fu Hau Fai, Benjamin Ms. Yu Man Fung, Alice	11-13/F Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong
Kong Sun	<i>Executive Directors</i> Mr. Kong Look Sen (<i>Chairman and Managing Director</i>) Mr. Kong Li Jer Mr. Kong Li Szu <i>Independent Non-executive Directors</i> Mr. Ku Suen Fai Mr. Fai Cheong Hau	Units 9-10, 13/F, Tower One, Lippo Centre, 89 Queensway, Hong Kong
Manhattan Trading Group Limited	Mr. Yu Shu Kuen	11-13/F Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong
Montgomery Group Limited	Mr. Fu Hau Fai, Benjamin Madam Fu Chong Lap Hoi, Katy	11-13/F Ying Kong Mansion, 2-6 Yee Wo Street, Causeway Bay, Hong Kong

- (d) The address of Somerley Limited, being an investment adviser and exempt dealer registered under the Securities Ordinance (Chapter 333 of the Laws of Hong Kong), is Suite 3108, One Exchange Square, 8 Connaught Place, Central, Hong Kong.

- (e) The English text of this document and the Form of Acceptance shall prevail over the Chinese text for the purpose of interpretation.

CONSENT

Somerley has given and has not withdrawn its written consent to the issue of this document with the inclusion herein of its letter and references to its names in the form and context in which they respectively appear.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the offices of the Offeror at 13th Floor, Ying Kong Mansion 2-6 Yee Wo Street, Causeway Bay, Hong Kong during normal business hours while the Offer remains open for acceptance;

- (a) the memorandum of association and articles of association of the Offeror and Kong Sun;
- (b) the annual reports of Kong Sun for the years ended 31st December, 1999, 2000 and 2001, respectively and the interim report of Kong Sun for the six months ended 30th June, 2002;
- (c) the letter from the Offeror, the text of which is set out on pages 5 to 10 of this document;
- (d) the letter from Somerley, the text of which is set out on pages 11 to 23 of this document;
- (e) the irrevocable undertaking given by Capital Ace to accept the Offer; and
- (f) the letter of consent referred to in this Appendix.