KongSun 江山

Stock Code : 295

Kong Sun HOLDINGS LIMITED

Interim Report 2011

CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Tse On Kin *(Chairman)* Yu Pak Yan, Peter
INDEPENDENT NON-EXECUTIVE DIRECTORS	Lau Man Tak Man Kwok Leung Wong Yun Kuen
COMPANY SECRETARY	Tsang Kwai Ping
REGISTERED OFFICE	Unit 905, 9th Floor Wings Building 110–116 Queen's Road Central Central Hong Kong
AUDITOR	SHINEWING (HK) CPA Limited 43th Floor, The Lee Gardens 33 Hysan Avenue Causeway Bay Hong Kong
PRINCIPAL BANKERS	Standard Chartered Bank (Hong Kong) Limited The Bank of China (Hong Kong) Limited The Bank of East Asia Limited
SHARE REGISTRAR AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Center 183 Queen's Road East Wanchai Hong Kong
STOCK CODE	295
CONTACT INFORMATION	Tel : 3970 4050 Fax : 3970 4055 Website : www.kongsun-holdings.com

The Board of Directors (the "Board") of Kong Sun Holdings Limited (the "Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2011.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2011

		For the six months ended 30 June	
	Notes	**2011 (Unaudited) HK$'000**	2010 (Unaudited) HK$'000
Turnover	3	**9,475**	12,491
Sales of life-like plants		**6,983**	11,197
Properties rental income		**1,115**	740
		8,098	11,937
Cost of sales		**(5,849)**	(8,697)
Gross profit		**2,249**	3,240
Other revenue	5	**3,598**	323
Loss on fair value changes of held for trading investments		**(292)**	(915)
Distribution and selling expenses		**(681)**	(996)
Administrative expenses		**(12,901)**	(17,186)
Finance costs	6	**(822)**	(2,230)
Loss before tax	7	**(8,849)**	(17,764)
Income tax expense	8	**—**	—
Loss for the period attributable to owners of the Company		**(8,849)**	(17,764)
Loss per share			
Basic	9	**HK(1.23) cents**	HK(3.79) cents
Diluted	9	**HK(1.23) cents**	HK(3.79) cents

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Loss for the period	**(8,849)**	(17,764)
Other comprehensive expense		
Exchange differences arising on translation of foreign operations	**(2)**	—
Loss on fair value changes of available-for-sale financial assets	**(18,930)**	—
Other comprehensive expense for the period (net of tax)	**(18,932)**	—
Total comprehensive expenses for the period attributable to owners of the Company	**(27,781)**	(17,764)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

	Notes	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Non-current assets			
Investment properties	11	**57,160**	57,160
Property, plant and equipment	12	**55,475**	35,756
Prepaid lease payments	13	**14,185**	14,421
Available-for-sale financial assets	14	**9,202**	28,132
Goodwill	15	**8,582**	—
Other financial asset	16	**856**	—
		145,460	135,469
Current assets			
Inventories		**41,748**	14,325
Trade receivables	17	**2,111**	1,362
Other receivables and prepayments		**5,735**	2,552
Prepaid lease payments	13	**473**	473
Held for trading investments	18	**2,280**	4,822
Pledged bank deposits		**6,841**	7,018
Time deposits with maturities over three months		**64,246**	118,721
Bank balances and cash		**29,146**	16,642
		152,580	165,915
Current liabilities			
Trade and other payables	19	**31,768**	16,285
Borrowing		**5,264**	—
Obligation under finance lease		**68**	—
Convertible bonds designated as financial liabilities at fair value through profit or loss		**7,294**	7,294
		44,394	23,579
Net current assets		**108,186**	142,336
Total assets less current liabilities		**253,646**	277,805

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 30 June 2011

	Note	**30 June 2011 (Unaudited) HK$'000**	31 December 2010 (Audited) HK$'000
Non-current liabilities			
Borrowing		**598**	—
Obligation under finance lease		**219**	—
Deferred tax liabilities		**15,208**	12,403
		16,025	12,403
Net assets		**237,621**	265,402
Capital and reserves			
Share capital	20	**143,793**	143,793
Reserves		**93,828**	121,609
Total equity		**237,621**	265,402

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

	Attributable to owners of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Available-for-sale investment revaluation reserve HK$'000	Share option reserve HK$'000	Warrants reserve HK$'000	Accum-ulated loss HK$'000	Total HK$'000
As 1 January 2010	83,782	105,752	20	—	—	—	—	4,510	194,064
Loss for the period and other comprehensive expenses for the period	—	—	—	—	—	—	—	(17,764)	(17,764)
Shares issued	12,080	12,080	—	—	—	—	—	—	24,160
Transaction costs attributable to issue of shares	—	(654)	—	—	—	—	—	—	(654)
Recognition of equity-settled share-based payments	—	—	—	—	—	3,000	—	—	3,000
At 30 June 2010	95,862	117,178	20	—	—	3,000	—	(13,254)	202,806
As 1 January 2011	**143,793**	**126,958**	**20**	**—**	**10,188**	**3,000**	**1,771**	**(20,328)**	**265,402**
Loss for the period and other comprehensive expenses for the period	**—**	**—**	**—**	**(2)**	**(18,930)**	**—**	**—**	**(8,849)**	**(27,781)**
At 30 June 2011	**143,793**	**126,958**	**20**	**(2)**	**(8,742)**	**3,000**	**1,771**	**(29,177)**	**237,621**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
NET CASH USED IN OPERATING ACTIVITIES	**(20,413)**	(16,628)
NET CASH FROM (USED IN) INVESTING ACTIVITIES		
Decrease/(increase) in time deposits with maturity over three months	**54,475**	(5,099)
Acquisition of subsidiaries (net of cash and cash equivalents acquired) (note 21)	**(19,528)**	—
Other investing activities	**2,332**	304
	37,279	(4,795)
NET CASH (USED IN) FROM FINANCING ACTIVITIES		
Proceeds from issue of shares	**—**	24,160
Expenses on issue of shares	**—**	(654)
Other financing activities	**(4,360)**	(1,311)
	(4,360)	22,195
NET INCREASE IN CASH AND CASH EQUIVALENTS	**12,506**	772
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	**16,642**	124,255
Effect of foreign exchange rate changes	**(2)**	—
CASH AND CASH EQUIVALENTS AT END OF PERIOD, represented by bank balances and cash	**29,146**	125,027

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2011

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments, which are measured at revalued amounts or fair values, as appropriate.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010.

In the current interim period, the Group has applied, for the first time, the following new or revised standards and interpretations ("new or revised HKFRSs") issued by the HKICPA.

HKFRSs (Amendments)	Improvements to HKFRSs 2010
HKFRS 1 (Amendments)	Limited Exemptions from Comparative HKFRS 7 Disclosures for First-time Adopters
HKAS 24 (Revised)	Related Party Disclosures
HKAS 32 (Amendments)	Classification of Rights Issues
HK(IFRIC)-Int 14 (Amendments)	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosure set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

The Group has not early applied new or revised standards, amendments or interpretations that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangement[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]

1 Effective for annual periods beginning on or after 1 July 2012.
2 Effective for annual periods beginning on or after 1 January 2013.

The new or revised standards on consolidation, joint arrangements and disclosures were issued by the HKICPA in June 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

HKFRS 10 replaces the parts of HKAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. Under HKFRS 10, there is only one basis for consolidation, that is control. In addition, HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios. Overall, the application of HKFRS 10 requires a lot of judgement.

The directors of the Company anticipate that the application of these new or revised standards and interpretations will have no material impact on the results and the financial position of the Group.

3. TURNOVER

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Sales of life-like plants	**6,983**	11,197
Properties rental income	**1,115**	740
Proceeds from disposal of held for trading investments	**1,377**	554
	9,475	12,491

4. SEGMENT INFORMATION

The Group is organized into three (as at 30 June 2010: two) reportable operating segments. The reportable operating segments and their principal activities are as follows:

(a) Manufacturing and sales of life-like plants

(b) Properties investment and development

(c) Securities investment

4. **SEGMENT INFORMATION** *(continued)*

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segment for the period under review:

For the six months ended 30 June

	Properties investment and development		Manufacturing and sales of life-like plants		Securities investment		Total	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover	**1,115**	740	**6,983**	11,197	**1,377**	554	**9,475**	12,491
Segment revenue	**1,115**	740	**6,983**	11,197	**—**	—	**8,098**	11,937
Segment profit (loss)	**686**	543	**(8,891)**	(9,275)	**(1,165)**	(67)	**(9,370)**	(8,799)
Unallocated corporate operating income							**3,343**	323
Unallocated corporate operating expenses							**(2,000)**	(7,058)
Finance costs							**(822)**	(2,230)
Loss before tax							**(8,849)**	(17,764)

4. SEGMENT INFORMATION *(continued)*

Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segment:

	30 June 2011 HK$'000	31 December 2010 HK$'000
Segment assets		
Manufacturing and sales of life-like plants	**126,578**	66,016
Properties investment and development	**58,392**	57,999
Securities investment	**11,482**	33,468
Total segment assets	**196,452**	157,483
Unallocated corporate assets	**101,588**	143,901
Consolidated total assets	**298,040**	301,384

	30 June 2011 HK$'000	31 December 2010 HK$'000
Segment liabilities		
Manufacturing and sales of life-like plants	**39,760**	9,402
Properties investment and development	**6,643**	12,853
Securities investment	**—**	—
Total segment liabilities	**46,403**	22,255
Unallocated corporate liabilities	**14,016**	13,727
Consolidated total liabilities	**60,419**	35,982

5. OTHER REVENUE

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Sample sales	**62**	86
Overprovision of long service payment	**219**	—
Net foreign exchange gain	**2,192**	10
Interest income	**1,108**	68
Sundry income	**17**	159
	3,598	323

6. FINANCE COSTS

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Interest on:		
Convertible bonds designated at financial liabilities at fair value through profit or loss	**800**	800
Promissory notes	**—**	1,422
Other borrowing wholly repayable within five years	**22**	8
	822	2,230

7. LOSS BEFORE TAX

Loss before tax has been arrived at after charging (crediting) the following items:

	For the six months ended 30 June	
	2011	2010
	(Unaudited)	(Unaudited)
	HK$'000	HK$'000
Auditor's remuneration	**—**	—
Staff costs:		
Directors' remuneration	**150**	150
Wages, salaries and other benefits	**6,909**	6,157
Retirement benefit costs (excluding directors)	**73**	81
	7,132	6,388
Share-based payment expense	**—**	3,000
Cost of inventories recognised as an expense	**5,849**	8,697
Depreciation of property, plant and equipment	**1,663**	1,560
Amortisation of prepaid lease payments	**236**	236
Operating lease rental on rented premises	**281**	278

8. INCOME TAX EXPENSE

No provision for Hong Kong profits tax has been made as the Group had no estimated assessable profits arising in Hong Kong for both periods ended 30 June 2011 and 2010, respectively.

No provision for overseas taxation has been made as the overseas subsidiaries had no estimated assessable profits arising from the respective jurisdictions for both periods ended 30 June 2011 and 2010, respectively.

The Group did not have material unprovided deferred tax for both periods.

9. LOSS PER SHARE

The calculation of basic and diluted loss per share is based on the loss for the period attributable to the owners of the Company for the six months ended 30 June 2011 of approximately HK$8,849,000 (2010: HK$17,764,000) and on the weighted average of approximately 718,962,000 (2010: 468,906,000) ordinary shares issued during the period.

As at 30 June 2011, the denominators used are the same for both basis and diluted loss per share.

The computation of diluted loss per share for the period ended 30 June 2010 does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

10. DIVIDEND

No dividend were paid, declared or proposed during the reporting period. The directors do not recommend the payment of an interim dividend.

11. INVESTMENT PROPERTIES

	30 June 2011 HK$'000	31 December 2010 HK$'000
Investment properties, stated at fair value	**57,160**	57,160

At 30 June 2011, the directors have considered that the fair value of the Group's investment properties do not have significantly change from its carrying amount of approximately HK$57,160,000 as at 31 December 2010 and accordingly, no fair value change has been recognised in profit or loss in the current period.

The investment properties of the Group are situated in Hong Kong and held under long-term leases.

12. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2011, except for the fixed assets additions resulting from the completion of the acquisition of subsidiaries during the period (details of the acquisition of subsidiaries is set out in note 21), the Group spent approximately HK$433,000 for acquisition of machinery and equipment and leasehold improvement. The Group did not have any disposal during the six months ended 30 June 2011.

13. PREPAID LEASE PAYMENTS

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Non-current assets	**14,185**	14,421
Current assets	**473**	473
	14,658	14,894

The prepaid lease payments represent leasehold land outside Hong Kong held under medium-term leases.

14. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	30 June 2011 HK$'000	31 December 2010 HK$'000
Equity securities listed in Hong Kong, at fair value	**9,202**	28,132

15. GOODWILL

	30 June 2011 HK$'000	31 December 2010 HK$'000
At the beginning of the period	**—**	—
Arising on acquisition of subsidiaries	**8,582**	—
Cost and net carrying amount at end of period	**8,582**	—

Details of the acquisition of subsidiaries is set out in note 21.

16. OTHER FINANCIAL ASSET

	30 June 2011 HK$'000	31 December 2010 HK$'000
Fair value of profit guarantee	**856**	—

Pursuant to the sale and purchase agreement dated on 25 May 2011, Reach Billion Limited ("Reach Billion"), the vendor and Ms. Chu Ka Wah Caroll ("Ms. Chu"), the guarantor, undertake to Smart Future Investments Limited ("Smart Future"), a wholly owned subsidiary of the Company, that the audited net profit before interest, tax, depreciation and amortisation of Lisun Plastic Factory Limited and its wholly owned subsidiary, 惠東縣麗新塑膠廠有限公司 (collectively refer to as "Lisun Group") for the year ended 31 December 2011 shall not be less than HK$2 million (the "Profit Guarantee").

The fair value of the initial recognition of the Profit Guarantee was arrived on the basis of a valuation carried out by an independent qualified professional valuer that not connected with the Group. Details of the acquisition of subsidiaries is set out in note 21.

17. TRADE RECEIVABLES

The Group allows an average credit period ranging from 0 day to 90 days to its trade customers. The following is an aged analysis of trade receivables net of allowance for doubtful debts presented based on the invoice date at the end of the period/year.

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
1–30 days	**2,069**	46
31–90 days	**35**	565
91–180 days	**7**	740
181–360 days	**—**	—
Over 1 year	**—**	11
	2,111	1,362

18. HELD FOR TRADING INVESTMENTS

Held for trading investments comprise equity securities listed in Hong Kong and are stated at fair values which are based on the quoted market bid prices on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

19. TRADE AND OTHER PAYABLES

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Trade payables	17,333	4,147
Other payables and accrued charges	14,435	12,138
	31,768	16,285

The following is an aged analysis of trade payables presented on the invoice date at the end of the period/year.

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
1–30 days	6,990	7
31–90 days	8,256	829
91–180 days	2,047	3,271
Over 180 days	40	40
	17,333	4,147

The average credit period on purchase of goods is 90 days.

20. SHARE CAPITAL

	30 June 2011 (Unaudited) HK$'000	31 December 2010 (Audited) HK$'000
Authorised:		
2,000,000,000 (2010: 2,000,000,000) ordinary shares of HK$0.20 each	**400,000**	400,000

	Number of shares '000	Share capital HK$'000
Issued and fully paid:		
Ordinary shares of HK$0.20 each		
At 1 January 2011 and 30 June 2011	718,962	143,793

21. ACQUISITION OF SUBSIDIARIES

On 25 May 2011, Smart Future, Reach Billion and Ms. Chu, entered into a sale and purchase agreement (the "S&P Agreement") whereby Smart Future acquired from Reach Billion the entire issued share capital of Lisun Group, for an aggregate consideration of HK$20 million. Both Reach Billion and Ms. Chu are independent third parties to the Company. Details of the acquisition of subsidiaries was set out in the Company's announcement dated 25 May 2011.

The acquisition of Lisun Group has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was approximately HK$8,580,000. Lisun Group is engaged in manufacturing and sales of artificial flowers. Lisun Group was acquired so as to provide an opportunity for the Group to diversify the Group's products and expand the customer base of the Group.

21. ACQUISITION OF SUBSIDIARIES *(continued)*

Consideration transferred

	HK$'000
Cash	20,000
Total	20,000

Note: Based on the S&P Agreement, Reach Billion and Ms. Chu undertake to Smart Future that the audited net profit before interest, tax, depreciation and amortisation of Lisun Group for the year ended 31 December 2011 (the "2011 Net Profit") shall not be less than HK$2 million. In the event that the 2011 Net Profit is less than HK$2 million, Reach Billion and Ms. Chu are required to pay the shortfall of the Profit Guarantee multiple by six to Smart Future. The maximum liability of the vendor in respect of the Profit Guarantee shortfall shall not exceed HK$12 million.

The fair value of such contingent arrangement amounted to approximately HK$858,000 as at 31 May 2011 and presented separately on the condensed consolidated statement of financial position. The fair values were calculated by an independent qualified professional valuer, Kovas Magni Appraisal Limited. Changes in variables and assumptions may result in changes in the fair value. Details of the other financial asset is set out in note 16.

Acquisition-related costs amounting to approximately HK$20,000 have been excluded from the cost of acquisition and have been recognised directly as an expense in the period and included in the administrative expenses in the condensed consolidated income statement.

21. ACQUISITION OF SUBSIDIARIES *(continued)*

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	21,225
Inventories	3,017
Trade and other receivables	3,490
Amount due from related company	756
Pledged bank deposits	103
Bank balances and cash	472
Bank overdraft	(2,796)
Trade and other payables	(2,873)
Amount due to related company	(3,807)
Obligations under finance lease	(293)
Bank and mortgage loan	(5,927)
Deferred tax liability	(2,805)
	10,562
Arising on acquisition:	
Goodwill	8,582
Other financial asset (note 16)	856
Total consideration	20,000

The trade and other receivables with a fair value and gross contractual amounts of approximately HK$3,490,000.

Goodwill arose in the acquisition of Lisun Group because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on this acquisition is expected to be deductible for tax purposes.

21. ACQUISITION OF SUBSIDIARIES *(continued)*

Net cash outflow on acquisition

	HK$'000
Cash consideration paid	20,000
Less: cash and cash equivalent balances acquired	(472)
	19,528

Included in the loss for the six months ended 30 June 2011 is profit of approximately HK$193,000 attributable to the additional business generated by Lisun Group. Revenue for the period includes approximately HK$1,338,000 generated from Lisun Group.

Had the acquisition been completed on 1 January 2011, total group revenue for the period would have been approximately HK$5,068,000, and loss for the period would have been approximately HK$435,000. The proforma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

In determining the "proforma" revenue and profit of the Group had Lisun Group been acquired on 1 January 2011, the directors have:

- calculated depreciation and amortisation of plant and equipment based on the recognised amounts of plant and equipment at the date of the acquisition.

- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

22. SHARE-BASED PAYMENT

The Company has a share option scheme for eligible persons. Details of the share options outstanding during the current period are as follow:

	Number of share options
Outstanding at 1 January 2011 and 30 June 2011	34,208,382

The closing price of the Company's shares immediately before 22 February 2010, the date of grant, was HK$0.460. The fair value of the options determined at the date of grant using the Black-Scholes option pricing model were HK$3,000,000.

The following assumptions were used to calculate the fair values of share options:

	22 February 2010
Exercise price	HK$0.422
Expected life	1.5 years
Expected volatility	50.55%
Expected dividend yield	0%
Risk-free interest rate	0.445%

The fair values were calculated by an independent qualified professional valuer, Kovas Magni Appraisal Limited. Changes in variables and assumptions may result in changes in the fair value of the options.

23. OPERATING LEASE

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	30 June 2011 HK$'000	31 December 2010 HK$'000
Within one year	**194**	45
In the second to fifth year	**194**	—
	388	45

Operating lease payments represented rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 2 years (2010: 1 year) with fixed monthly rentals.

The Group as lessor

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

	30 June 2011 HK$'000	31 December 2010 HK$'000
Within one year	**2,203**	1,600
In the second to fifth year	**3,084**	2,132
	5,287	3,732

As at 30 June 2011, the investment properties are expected to generate rental yields of 3.9% (as at 31 December 2010: 3.0%) or an ongoing basis. Leases are negotiated for the terms ranged from 1 to 3 years with fixed monthly rentals.

24. LITIGATION

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

In the opinion of the directors of the Company, in 2002, Xswim Holding, a non-wholly owned subsidiary of the Company, and its subsidiaries ("Xswim Group") advanced the Company an aggregate of approximately HK$15,241,000. In 2002, the Company repaid Xswim Group HK$5,600,000 leaving a balance of approximately HK$9,641,000 outstanding (the "Outstanding Balance") and requested CYW to advance HK$2,000,000 (the "Intended Loan") to the Company. As a result, the Company and Mr. Kong respectively issued on 20 December 2002 a cheque with an amount of HK$11,600,000 each payable to CYW as securities for the Outstanding Balance and the Intended Loan, although CYW has never advanced the Intended Loan to the Company. The Company repaid in full the Outstanding Balance to Xswim Group in 2003. Upon the full repayment of the Outstanding Balance in 2003, in the opinion of the directors of the Company, the Company no longer had legal or financial obligations to pay CYW and thus refused to present the cheque previously issued to CYW in 2003. As at 31 December 2010 and 2009, with the advices by the Company's legal adviser, the directors of the Company were of the opinion that the Group has proper and valid defences to the CYW's action and accordingly, no provision for loss had been accounted for in these condensed consolidated financial statements.

25. RELATED PARTIES TRANSACTIONS

(a) Related parties transactions

During the period, the Group entered into the following transactions with related parties:

Name of the Company	Nature of transactions	Relationship	Common directorship	For the Six months ended 30 June 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
CJ Capital Investments Limited	Rental income	Related Company	Mr. Tse On Kin	**105**	240
	Consultancy fee	Related Company	Mr. Tse On Kin	**60**	120
Zmay Holdings Limited	Rental income	Related Company	Mr. Man Kwok Leung & Dr. Wong Yun Kuen	**102**	—

(b) Compensation of directors of the Company and key management personnel

The remuneration of directors of the Company and other members of key management during the period was as follows:

	For the six months ended 30 June 2011 (Unaudited) HK$'000	2010 (Unaudited) HK$'000
Short-term benefits	**335**	335

26. COMPARATIVE FIGURES

Certain expenses are shown in the condensed consolidated income statement for the six months ended 30 June 2010 has been reclassified and grouped into administrative expenses to conform with current period presentation. The directors of the Company consider that the new presentation is more meaningful in view of the nature of the relevant expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Company's principal activity continued to be investment holding whilst its subsidiaries are mainly engaged in properties investment and development, manufacturing and sales of life-like plants and securities investment. The turnover of the Group for the six months ended 30 June 2011 amounted to approximately HK$9,475,000. Loss attributable to shareholders had been decreased to approximately HK$8,849,000 from approximately HK$17,764,000 recorded for the period ended 30 June 2010. The substantial decrease of loss for the period was mainly explained by the absence of the share-based payment and interest on the promissory note which had been fully settled during the year ended 31 December 2010.

PROPERTIES INVESTMENT AND DEVELOPMENT

The Group's properties investment and development business had contributed approximately HK$1,115,000 to the total revenue of the Group for the six months ended 30 June 2011, representing an increase of 50.7% when compared with the same corresponding period in 2010. The increase was mainly due to the improvement of the occupancy of the Group's investment properties.

LIFE-LIKE PLANTS BUSINESS

The life-like plants business had contributed approximately HK$6,983,000 to the total revenue of the Group for the six months ended 30 June 2011. The turnover of the segment decreased by approximately HK$4,214,000 when compared to approximately HK$11,197,000 in the same corresponding period in 2010. Less sale orders were received from the United States of America and Europe market is the major factor attributable to the decrease.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

SECURITIES INVESTMENT

As at 30 June 2011, the Group managed a portfolio of investments in capital market with fair value of approximately HK$11,482,000. Looking ahead, the market conditions remain somewhat uncertain, management will be watchful on market developments and continue to be prudent in managing its investment portfolio and the Group will keep focus on improving overall asset quality.

PROSPECTS

The Group is now concentrating on its properties investment and development, manufacturing and sales of life-like plants business and securities investment.

With the stabilized economic conditions, rebound of the property market and low interest rate environment, the occupancy of the Group's investment properties has been improved. The Group is optimistic in the property market and will target to maintain high occupancy rates and rental cashflows from its investment properties.

Upon the completion of the acquisition of the business engaged in manufacturing and sales of artificial flowers in May 2011, the Group is provided with opportunities in diversifying the products and expanding the customer base which provided synergy to the Group's existing business.

The Group will synchronize these businesses so as to produce a sustained and long term benefits. Much effort will be made to optimize the value of its current business and seek investment opportunities with great potential value.

SHARE CAPITAL

The Group had no change in capital structure for the six months ended 30 June 2011.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2011, the total shareholders fund of the Group amounted to approximately HK$237,621,000, while there was approximately HK$265,402,000 as at 31 December 2010.

As at 30 June 2011, the Group's debt ratio, which was calculated as a ratio of total liabilities to total equity, was 0.25 which increased from 0.14 as at 31 December 2010.

For the six months ended 30 June 2011, most assets, liabilities and transactions of the Group are denominated in Renminbi and Hong Kong dollars. The Group had not entered into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate active to reduce the exchange risks.

INVESTMENT POSITION AND PLANNING

On 31 May 2011, Smart Future has acquired the entire issued share capital of a company engaged in manufacturing and sales of artificial flowers at a consideration of HK$20,000,000.

During the six months ended 30 June 2011, except for the fixed assets additions resulting from the completion of the acquisition of subsidiaries during the period, the Group spent approximately HK$433,000 for additions of fixed assets.

During the six months ended 30 June 2011, the Group has disposed portion of its equity securities of a company listed on the Stock Exchange. As at 30 June 2011, the Group held equity securities as long-term and short-term investments with fair value of approximately HK$9,202,000 and HK$2,280,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

CHARGE ON THE GROUP'S ASSETS AND CONTINGENT LIABILITIES

As at 30 June 2011, certain of the Group's bank deposits of approximately HK$6,841,000 (31 December 2010: HK$7,018,000) had been pledged to secure an undrawn facility and to the customs authorities of the People's Republic of China (the "PRC").

As at 30 June 2011, the Group had no significant contingent liabilities (31 December 2010: Nil).

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2011, the Group had approximately 377 employees located in Hong Kong and the PRC. They are remunerated according to the nature of the job market trends, with built-in merit components incorporated in annual review to reward and motivate individual performance.

CONNECTED TRANSACTIONS

There are no transactions which would need to be disclosed as connected transactions in accordance with the requirements of the Listing Rules.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 30 June 2011, none of the directors or chief executives of the Company or their associates had any interests or short positions in any shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (the "SFO"), or as recorded in the register to be kept under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 30 June 2011, the following shareholders had interests, directly or indirectly, or short positions in the shares and underlying shares of the Company would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Capacity	Number of ordinary shares held	Percentage of issued share capital
Ho Kam Hung	Beneficial owner	50,040,600	6.96

Save as disclosed above, the Company was not aware of any other person (other than the directors or chief executives of the Company) who had an interests, directly or indirectly, or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO as at 30 June 2011.

SHARE OPTIONS

The following table discloses movements in the Company's share options during the period:

Category	Date of grant	Exercise period	Outstanding at beginning of period	Granted during period	Exercised during period	Outstanding at end of period
Employees and others						
In aggregate	22.2.2010	22.2.2010 to 21.2.2013	34,208,382	—	—	34,208,382
Weighted average exercise price			HK$0.422	n/a	n/a	HK$0.422

CODE ON CORPORATE GOVERNANCE PRACTICES

The Company has applied the principles of and complied with the applicable code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 to the Listing Rules (the "CG Code") during the period under review, save for the deviation from code provisions A.2.1 and A.4.1 which are explained in the relevant paragraph in this report. The Company periodically reviews its corporate governance practices to ensure that these continue to meet the requirements of the CG Code.

CODE ON CORPORATE GOVERNANCE PRACTICES

(continued)

Under the code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have any officer with the title of "chief executive officer". Mr. Tse On Kin, who acts as the chairman of the Company, is also responsible for overseeing the general operations of the Group. The Board will meet regularly to consider major matters affecting the operations of the Company. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as the Company's code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the six months ended 30 June 2011.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2011, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

AUDIT COMMITTEE

The audit committee has reviewed with the management the appropriateness and consistent application of significant accounting principles and policies adopted by the Group, and discussed judgement issues, accounting estimates, adequacy of disclosures and internal consistency of the interim financial report for the six months ended 30 June 2011.

On behalf of the Board
Tse On Kin
Chairman

Hong Kong, 30 August 2011