

KongSun  江山

Kong Sun Holdings Limited

Stock Code : 295

江山



2010

INTERIM REPORT

CORPORATE INFORMATION

EXECUTIVE DIRECTORS	Tse On Kin (<i>Chairman</i>) 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 C, 10th Floor Wings Building 110–116 Queen’s Road Central Central Hong Kong
AUDITORS	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 (HK) Limited
SHARE REGISTRAR AND TRANSFER OFFICE	Computershare Hong Kong Investor Services Limited 17M Floor, Hopewell Centre 183 Queen’s Road East Wanchai Hong Kong
STOCK CODE	295
CONTACT INFORMATION	Tel : 3621 0796 Fax : 3621 0795 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 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

		For the six months ended 30 June	
	Notes	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Turnover	3	11,937	19,336
Cost of sales		(9,073)	(16,974)
Gross profit		2,864	2,362
Other revenue		323	1,211
Fair value change of convertible bonds designed at financial liabilities at fair value through profit or loss		—	(60,553)
Fair value change of promissory notes		—	(2,330)
Distribution and selling expenses		(996)	(907)
Administrative expenses		(17,725)	(12,028)
Finance costs	5	(2,230)	(5,003)
Loss before tax	6	(17,764)	(77,248)
Income tax expense	7	—	—
Loss for the period and other comprehensive expenses for the period		(17,764)	(77,248)
Loss for the period and other comprehensive expenses for the period attributable to:			
Owners of the Company		(17,764)	(77,248)
Non-controlling interests		—	—
		(17,764)	(77,248)
Loss per share			
Basic	8	HK(3.79) cents	HK(4.17) cents
Diluted	8	N/A	N/A

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Non-current assets			
Investment properties	10	50,315	50,315
Property, plant and equipment	11	36,871	37,266
Prepaid lease payments	12	14,658	14,894
		101,844	102,475
Current assets			
Inventories		38,254	13,001
Trade receivables	13	2,627	3,623
Other receivables and prepayments		3,900	3,082
Prepaid lease payments	12	473	473
Tax recoverable		126	126
Held for trading investments		2,528	4,063
Pledged deposits		6,440	1,341
Bank balances and cash		125,027	124,255
		179,375	149,964
Current liability			
Trade and other payables	14	29,869	10,750
		149,506	139,214
Net current assets			
		251,350	241,689
Total assets less current liabilities			

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 30 June 2010

	Notes	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Non-current liabilities			
Convertible bonds designated at financial liabilities at fair value through profit or loss		11,600	11,600
Promissory note	15	24,049	23,130
Deferred tax liabilities		12,895	12,895
		48,544	47,625
Net assets		202,806	194,064
Capital and reserves			
Share capital	16	95,862	83,782
Reserves		106,944	110,282
Equity attributable to owners of the Company		202,806	194,064
Non-controlling interests		—	—
Total equity		202,806	194,064

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2010

	Attributable to owners of the Company										
	Share capital	Share premium	Capital redemption reserve	General reserve	Special reserve	Exchange reserve	Share option reserve	(Accumulated losses)/ Retained profits	Total	Non-controlling interests	Total
At 1 January 2009	320,116	281,049	20	18,000	9,329	8,444	–	(606,811)	30,147	11	30,158
Loss for the period and other comprehensive expenses for the period	–	–	–	–	–	–	–	(77,248)	(77,248)	–	(77,248)
Shares issued on conversion of convertible bonds	202,401	(151,800)	–	–	–	–	–	–	50,601	–	50,601
Placement of shares	81,700	–	–	–	–	–	–	–	81,700	–	81,700
At 30 June 2009	604,217	129,249	20	18,000	9,329	8,444	–	(684,059)	85,200	11	85,211
As 1 January 2010	83,782	105,752	20	–	–	–	–	4,510	194,064	–	194,064
Loss for the period and other comprehensive expenses for the period	–	–	–	–	–	–	–	(17,764)	(17,764)	–	(17,764)
Shares issued (note 16)	12,080	12,080	–	–	–	–	–	–	24,160	–	24,160
Transaction costs attributable to issue of shares	–	(654)	–	–	–	–	–	–	(654)	–	(654)
Recognition of equity-settled share-based payments	–	–	–	–	–	–	3,000	–	3,000	–	3,000
At 30 June 2010	95,862	117,178	20	–	–	–	3,000	(13,254)	202,806	–	202,806

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS*For the six months ended 30 June 2010*

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
NET CASH USED IN OPERATING ACTIVITIES	(16,628)	(12,150)
NET CASH USED IN INVESTING ACTIVITIES	(4,795)	(4,615)
NET CASH FROM (USED IN) FINANCING ACTIVITIES		
Proceeds from issue of shares	24,160	—
Expenses on issue of shares	(654)	—
Other financing activities	(1,311)	(17,591)
	22,195	(17,591)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS	772	(34,356)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	124,255	78,202
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	125,027	43,846

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2010

1. BASIS OF PREPARATION

The condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited 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 interim 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 used in the condensed consolidated interim financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2009.

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

HKFRSs (Amendments)	Amendment to HKFRS 5 as part of Improvements to HKFRSs 2008
HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 (Amendment)	Additional Exemptions for First-time Adopters
HKFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions
HKFRS 3 (Revised)	Business Combinations
HK(IFRIC) — Int 17	Distributions of Non-cash Assets to Owners

2. PRINCIPAL ACCOUNTING POLICIES (continued)

The Group applies HKFRS 3 (Revised) *Business Combinations* prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in HKAS 27 (Revised) *Consolidated and Separate Financial Statements* in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which HKFRS 3 (Revised) and HKAS 27 (Revised) are applicable, the application of HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to other HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which HKFRS 3 (Revised), HKAS 27 (Revised) and the consequential amendments to the other HKFRSs are applicable.

The application of the other new and revised HKFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs 2010 ¹
HKAS 24 (Revised)	Related Party Disclosures ⁴
HKAS 32 (Amendment)	Classification of Rights Issues ²
HKFRS 1 (Amendment)	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters ³
HKFRS 9	Financial Instruments ⁵
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a Minimum Funding Requirement ⁴
HK(IFRIC) — Int 19	Extinguishing Financial Liabilities with Equity Instruments ³

2. PRINCIPAL ACCOUNTING POLICIES (continued)

- ¹ Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate.
² Effective for annual periods beginning on or after 1 February 2010.
³ Effective for annual periods beginning on or after 1 July 2010.
⁴ Effective for annual periods beginning on or after 1 January 2011.
⁵ Effective for annual periods beginning on or after 1 January 2013.

HKFRS 9 *Financial Instruments* introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of HKFRS 9 might affect the classification and measurement of the Group's financial assets.

The directors of the Company anticipate that the application of other new and revised standards, amendments or 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	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Sales of life-like plants	11,197	18,551
Properties rental income	740	785
	11,937	19,336

4. SEGMENT INFORMATION

The Group is organized into two (as at 30 June 2009: three) reportable operating segments. The reportable operating segments and their principal activities are as follows:

- (a) Properties investment and development
- (b) Manufacturing and sales of life-like plants
- (c) Financial services (discontinued during the year ended 31 December 2009)

Segment revenue and results

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

For the six months ended 30 June

	Properties investment and development		Manufacturing and sales of life-like plants		Financial services		Total	
	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000	2010 HK\$'000	2009 HK\$'000
Segment revenue	740	785	11,197	18,551	—	—	11,937	19,336
Segment profit (loss)	543	659	(9,275)	(8,039)	—	—	(8,732)	(7,380)
Fair value change of convertible bonds designated at financial liabilities at FVTPL							—	(60,553)
Fair value change of promissory note							—	(2,330)
Unallocated corporate operating income							323	1,211
Unallocated corporate operating expenses							(7,125)	(3,193)
Finance costs							(2,230)	(5,003)
Loss before tax							(17,764)	(77,248)

4. SEGMENT INFORMATION (continued)

Segment assets and liabilities

	Properties investment and development		Manufacturing and sales of life-like plants		Total	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets						
Segment assets	51,565	51,340	102,549	92,473	154,114	143,813
Unallocated corporate assets					127,105	108,626
Consolidated assets					281,219	252,439

	Properties investment and development		Manufacturing and sales of life-like plants		Total	
	30 June 2010	31 December 2009	30 June 2010	31 December 2009	30 June 2010	31 December 2009
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment liabilities						
Segment liabilities	6,567	6,744	29,482	10,439	36,049	17,183
Unallocated corporate liabilities					42,364	41,192
Consolidated liabilities					78,413	58,375

5. FINANCE COSTS

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Interest on convertible bonds designated at financial liabilities at FVTPL	800	3,699
Interest on promissory notes	1,422	1,292
Interest on other borrowing wholly repayable within five years	8	12
	2,230	5,003

6. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	For the six months ended 30 June	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
Auditors' remuneration	—	—
Staff costs:		
Directors' remuneration	150	390
Wages, salaries and other benefit	4,083	4,281
Retirement benefit cost (excluding directors)	70	70
	4,303	4,741
Share-based payment expense	3,000	—
Cost of inventories recognised as an expense	9,073	16,974
Fair value change of held for trading investments	915	473
Depreciation of property, plant and equipment	1,560	958
Amortisation of prepaid lease payments	236	236
Operating lease rental on rented premises	278	458
Net foreign exchange loss	—	197

7. 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 2010 and 2009, 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 2010 and 2009, respectively.

The Group did not have material unprovided deferred tax for the period/year.

8. 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 2010 of approximately HK\$17,764,000 (2009: HK\$77,248,000) and on the weighted average of 468,906,000 (2009: 185,075,000) ordinary shares issued during the period.

Diluted loss per share for the periods ended 30 June 2010 and 2009 has not been presented as the effect of any dilution is anti-dilutive.

9. DIVIDEND

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

10. INVESTMENT PROPERTIES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Investment properties, stated at fair value	50,315	50,315

At 30 June 2010, 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\$50,315,000 as at 31 December 2009 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.

11. PROPERTY, PLANT AND EQUIPMENT

For the six months ended 30 June 2010, the Group spent approximately HK\$1,165,000 for acquisition of machinery and equipment and leasehold improvement. The Group did not have any disposal during the six months ended 30 June 2010.

12. PREPAID LEASE PAYMENTS

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Non-current assets	14,658	14,894
Current assets	473	473
	15,131	15,367

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

13. TRADE RECEIVABLES

The Group allows a credit period normally 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 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
1-30 days	2,580	182
31-90 days	—	1,342
91-180 days	—	2,041
181-360 days	—	—
1-2 years	11	29
Over 2 years	36	29
	2,627	3,623

14. TRADE AND OTHER PAYABLES

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Trade payables	21,484	3,315
Other payables and accrued charges	8,385	7,435
	29,869	10,750

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

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
1-30 days	8,687	120
31-90 days	11,013	2,363
91-180 days	1,707	822
181-360 days	66	—
1-2 years	11	10
	21,484	3,315

The average credit period on purchase of goods is 90 days. The Group has financial risk management policies in place to ensure all payables are settled within the credit timeframe.

15. PROMISSORY NOTE

On 16 December 2008, the Company issued an unsecured promissory note with principal value of HK\$33,800,000 upon completion of the acquisitions of Coast Holdings Limited and Kingston Property Investment Limited. The promissory note bears interests at 3% per annum payable monthly commencing from one month after the date of the issue. The promissory note is repayable on or before sixty months from the date of the issue, that is, 16 December 2013, or such other date as mutually agreed in writing by the Company and the noteholders. The Company has the option to redeem the promissory note in whole or in part at any time after three months from the date of the issue up to the date immediately prior to maturity. The carrying value of the promissory note as at 31 December 2009 amounted to approximately HK\$23,130,000.

The promissory note is subsequently measured at amortised cost, using the effective interest rates at 13.30%. The directors of the Company determined that no value has been assigned for the redemption options of the Company as it is considered to be insignificant in value.

Subsequent to the reporting date, on 6 July 2010, the Company has fully settled the promissory note.

16. SHARE CAPITAL

	30 June 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Authorised:		
2,000,000 (2009: 2,000,000) 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 2010	418,908	83,782
Issue of shares upon placing (Note)	60,400	12,080
At 30 June 2010	479,308	95,862

Note: On 20 January 2010, 60,400,000 ordinary shares of HK\$0.20 each were issued and allotted to independent third parties by placing.

17. SHARE-BASED PAYMENT

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

	Number of share options
Outstanding at 1 January 2010	—
Granted during the period	30,210,000
<hr/>	
Outstanding at 30 June 2010	30,210,000

The closing price of the Company's shares immediately before 22 February 2010, the date of grant, was HK\$0.460. In the current period, share options were granted on 22 February 2010. 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
Grant date share price	HK\$0.460
Exercise price	HK\$0.478
Expected life	1.5 years
Expected volatility	50.55%
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.

18. 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 2010 (Unaudited) HK\$'000	31 December 2009 (Audited) HK\$'000
Within one year	312	45

Operating lease payments represented rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 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 2010 HK\$'000	31 December 2009 HK\$'000
Within one year	820	605
In the second to fifth year	85	120
	905	725

As at 30 June 2010, the investment properties are expected to generate rental yields of 2.94% (as at 31 December 2009: 3.35%) on an ongoing basis. Lease are negotiated for the terms ranged from 1 to 3 years with fixed monthly rentals.

19. 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 was a 54% owned subsidiary of the Company prior 30 November 2009, against Mr. Kong as 1st defendant, the Company’s ex-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 this report, this action is still in progress and no hearing date has been fixed.

In the opinion of the directors, in 2002, Xswim Holding, a prior non-wholly owned subsidiary of the Company, and its subsidiaries (“Xswim Group”) advanced the Company an aggregate of approximately HK\$15,241,000. In 2002, the Company repaid Xswim Group HK\$5,600,000 leaving a balance of approximately HK\$9,641,000 outstanding (the “Outstanding Balance”) and requested CYW to advance HK\$2,000,000 (the “Intended Loan”) to the Company. As a result, the Company and Mr. Kong respectively issued on 20 December 2002 a cheque with an amount of HK\$11,600,000 each payable to CYW as securities for the Outstanding Balance and the Intended Loan, although CYW has never advanced the Intended Loan to the Company. The Company repaid in full the Outstanding Balance to Xswim Group in 2003. Upon the full repayment of the Outstanding Balance in 2003, in the opinion of the directors, the Company no longer had legal or financial obligations to pay CYW and thus refused to present the cheque previously issued to CYW in 2003. With the advices by the Company’s legal adviser, the directors are of the opinion that the Group has proper and valid defences to the CYW’s action. As at 30 June 2010, no provision for loss has been accounted for in these financial statements.

20. EVENT AFTER THE END OF THE INTERIM PERIOD

On 6 July 2010, the Company has fully settled the promissory note with principal value of HK\$33,800,000.

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 and manufacture and sales of life-like plants.

The turnover of the Group for the six months period ended 30 June 2010 amounted to approximately HK\$11,937,000. Loss attributable to shareholders had been narrowed down to approximately HK\$17,764,000 from approximately HK\$77,248,000 recorded for the six months period ended 30 June 2009. The substantial decrease of loss for the period was mainly explained by the adverse effect from the significant downwards of the fair value on convertible bonds in 2009. Certain convertible bonds were fully converted in late 2009 and no such effect in the current period.

Properties investment and development

The Group's properties investment and development business had contributed approximately HK\$740,000 to the total revenue of the Group for the six months ended 30 June 2010. The properties market in Hong Kong has shown a sign of stabilization since the financial crisis, investors have also become more optimistic about the general economic outlook, thus, it is expected that revenue from the properties business could have a healthy growth in the coming future.

Life-like plants business

The life-like plants business had contributed approximately HK\$11,197,000 to the total revenue of the Group for the six months ended 30 June 2010. The turnover of this segment slightly decreased by approximately HK\$7,354,000 when compare to approximately HK\$18,551,000 in 2009. Loss of approximately HK\$9,275,000 was recorded for the six months period ended 30 June 2010 which were mainly due to an increase in material cost and weak economy in the United States and Europe market.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Prospects

The Group is now concentrating on its properties investment in Hong Kong and the manufacture and sales of life-like plants business. The Group will continue to enhance its product differentiation and cost control initiatives in the life-like plants business so as to keep our competitiveness in the industry. Much effort will be made to optimize the value of its current businesses and seek for investment opportunities with greater potential value.

Capital structure

During the six months period ended 30 June 2010, the share capital of the Company had the following changes:

On 20 January 2010, 60,400,000 ordinary shares of HK\$0.20 each in the capital of the Company were issued pursuant to a placing agreement in relation to the placing of new shares of the Company at the price of HK\$0.40 per placing share.

On 22 February 2010, 30,210,000 share options were granted to certain employees and consultants of the Group under the share option scheme adopted on 22 July 2009 with an exercise price of HK\$0.478 each. Each option entitles the holder to subscribe for one ordinary share of HK\$0.20 each of the Company.

Investment position and planning

During the six months ended 30 June 2010, the Group spent approximately HK\$1,165,000 for additions of fixed assets. The Group has disposed investment in equity securities of a company that is traded over the Stock Exchange. As at 30 June 2010, the Group held equity securities with fair value of approximately HK\$2,528,000, after recognising the loss on the disposal of equity securities and the decrease in fair market value on held for trading investments of approximately HK\$69,000 and HK\$915,000, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

Liquidity and capital resource

As at 30 June 2010, the total shareholders fund of the Group amounted to approximately HK\$202,806,000, while it was approximately HK\$194,064,000 as at 31 December 2009. As at 30 June 2010, the net asset value of the Group was approximately HK\$202,806,000. The Group's current assets increased to approximately HK\$179,375,000 as at 30 June 2010 from approximately HK\$149,964,000 as at 31 December 2009, which mainly explained by the increase of inventories for the use of life-like plants production.

As at 30 June 2010, the Group's debt ratio, which was calculated as a ratio of current liabilities plus non-current liabilities to total equity, was 0.39 which slightly increased from 0.30 as at 31 December 2009. For the six months ended 30 June 2010, most assets, liabilities and transactions of the Group are denominated in Hong Kong dollars and Renminbi. 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 activities to reduce the exchange risks.

Charge on the Group's assets and contingent liabilities

As at 30 June 2010, certain of the Group's bank deposits in the amount of approximately HK\$6,440,000 (2009: HK\$1,341,000) 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 2010, the Group had no significant contingent liabilities (2009: Nil).

Employees and remuneration policy

As at 30 June 2010, the Group has approximately 470 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

At 30 June 2010, none of the directors or chief executives of the Company or their associates had any interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations, as notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

At 30 June 2010, 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 of the shareholder	Capacity	Number of issued ordinary shares held	Percentage of the issued share capital of the Company
So Chi Ming	Beneficial owner	44,591,782	9.30%
Integrated Asset Management (Asia) Limited	Beneficial owner	37,800,000	7.89%
Yam Tak Cheung	Interest of controlled Corporation (Note)	37,800,000	7.89%
Ho Kam Hung	Beneficial owner	33,360,400	6.96%
Kong Fa Holding Limited	Beneficial owner	30,000,000	6.26%
Yau Yuk Tong	Beneficial owner	24,080,000	5.02%

Note: Yam Tak Cheung holds the entire beneficial interest in Integrated Asset Management (Asia) Limited and Yam Tak Cheung is accordingly deemed to be interested in 37,800,000 shares in the Company.

Save as disclosed above, at 30 June 2010, the Company was not aware of any other person (other than the directors or chief executives of the Company) who had an interest, directly or indirectly, or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company under Section 336 of the SFO.

SHARE OPTIONS

On 22 July 2009, the Company adopted a share option scheme (the “Scheme”) which complies with the requirements of Chapter 17 of the Listing Rules.

Details of the movements in the share options under the Scheme during the period were as follows:

Category	Date of grant	Exercise period	Exercise price per share	Number of share options			
				Outstanding at 1.1.2010	Granted during the period	Exercised during the period	Outstanding at 30.6.2010
Employees and others							
In aggregate	22.2.2010	22.2.2010 to 21.2.2013	HK\$0.478	–	30,210,000	–	30,210,000
Weighted average exercise price				n/a	HK\$0.478	n/a	HK\$0.478

Save as disclosed above, none of the directors or their spouses and children under the age of 18 had any right to subscribe for the securities of the Company, or had exercised any such right during the period.

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 for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the six months ended 30 June 2010.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2010, 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 2010.

On behalf of the Board

Tse On Kin

Chairman

Hong Kong, 23 August 2010