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KONG SUN HOLDINGS LIMITED

江山控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 295)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

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	
		2011	2010
		(Unaudited)	(Unaudited)
	<i>Notes</i>	HK\$'000	HK\$'000
Turnover	3	<u>9,475</u>	<u>12,491</u>
Sales of life-like plants		<u>6,983</u>	11,197
Properties rental income		<u>1,115</u>	740
		<u>8,098</u>	11,937
Cost of sales		<u>(5,849)</u>	<u>(8,697)</u>
Gross profit		<u>2,249</u>	3,240
Other revenue	5	<u>3,598</u>	323
Loss on fair value changes of held for trading investments		<u>(292)</u>	(915)
Distribution and selling expenses		<u>(681)</u>	(996)
Administrative expenses		<u>(12,901)</u>	(17,186)
Finance costs	6	<u>(822)</u>	<u>(2,230)</u>
Loss before tax	7	<u>(8,849)</u>	(17,764)
Income tax expense	8	<u>—</u>	—
Loss for the period attributable to owners of the Company		<u>(8,849)</u>	<u>(17,764)</u>
Loss per share			
Basic	9	<u>HK(1.23) cents</u>	HK(3.79) cents
Diluted	9	<u>HK(1.23) cents</u>	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	<u>(8,849)</u>	<u>(17,764)</u>
Other comprehensive expense		
Exchange differences arising on translation of foreign operations	(2)	—
Loss on fair value changes of available-for-sale financial assets	<u>(18,930)</u>	<u>—</u>
Other comprehensive expense for the period (net of tax)	<u>(18,932)</u>	<u>—</u>
Total comprehensive expenses for the period attributable to owners of the Company	<u><u>(27,781)</u></u>	<u><u>(17,764)</u></u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2011

		30 June 2011 (Unaudited) HK\$'000	31 December 2010 (Audited) HK\$'000
	Notes		
Non-current assets			
Investment properties		57,160	57,160
Property, plant and equipment		55,475	35,756
Prepaid lease payments		14,185	14,421
Available-for-sale financial assets		9,202	28,132
Goodwill	11	8,582	—
Other financial asset	12	856	—
		<u>145,460</u>	<u>135,469</u>
Current assets			
Inventories		41,748	14,325
Trade receivables	13	2,111	1,362
Other receivables and prepayments		5,735	2,552
Prepaid lease payments		473	473
Held for trading investments		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
		<u>152,580</u>	<u>165,915</u>
Current liabilities			
Trade and other payables	14	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
		<u>44,394</u>	<u>23,579</u>
Net current assets		<u>108,186</u>	<u>142,336</u>
Total assets less current liabilities		<u>253,646</u>	<u>277,805</u>
Non-current liabilities			
Borrowing		598	—
Obligation under finance lease		219	—
Deferred tax liabilities		15,208	12,403
		<u>16,025</u>	<u>12,403</u>
Net assets		<u>237,621</u>	<u>265,402</u>
Capital and reserves			
Share capital	15	143,793	143,793
Reserves		93,828	121,609
Total equity		<u>237,621</u>	<u>265,402</u>

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
HKFRS1 (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.

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

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 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
Turnover	<u>1,115</u>	<u>740</u>	<u>6,983</u>	<u>11,197</u>	<u>1,377</u>	<u>554</u>	<u>9,475</u>	<u>12,491</u>
Segment revenue	<u>1,115</u>	<u>740</u>	<u>6,983</u>	<u>11,197</u>	<u>—</u>	<u>—</u>	<u>8,098</u>	<u>11,937</u>
Segment profit (loss)	<u>686</u>	<u>543</u>	<u>(8,891)</u>	<u>(9,275)</u>	<u>(1,165)</u>	<u>(67)</u>	<u>(9,370)</u>	<u>(8,799)</u>
Unallocated corporate operating income							<u>3,343</u>	<u>323</u>
Unallocated corporate operating expenses							<u>(2,000)</u>	<u>(7,058)</u>
Finance costs							<u>(822)</u>	<u>(2,230)</u>
Loss before tax							<u>(8,849)</u>	<u>(17,764)</u>

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 (Unaudited) HK\$'000	2010 (Unaudited) 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
	<u>822</u>	<u>2,230</u>

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
	<u>7,132</u>	<u>6,388</u>
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.

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

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. GOODWILL

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

Details of the acquisition of subsidiaries is set out in note 16.

12. OTHER FINANCIAL ASSET

	30 June 2011 HK\$'000	31 December 2010 HK\$'000
Fair value of profit guarantee	<u>856</u>	<u>—</u>

Pursuant to the sale and purchase agreement dated on 25 May 2011, Reach Billion Limited ("Reach Billion"), the vendor and Ms. Chu Ka Wah Carroll ("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 16.

13. 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
	<u>2,111</u>	<u>1,362</u>

14. 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
	<u>31,768</u>	<u>16,285</u>

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
	<u>17,333</u>	<u>4,147</u>

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

15. 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	<u>400,000</u>	<u>400,000</u>
	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	<u>718,962</u>	<u>143,793</u>

16. 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.

Consideration transferred

	HK\$'000
Cash	<u>20,000</u>
Total	<u>20,000</u>

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 12.

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.

16. ACQUISITION OF SUBSIDIARIES (Continued)

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

	<i>HK\$'000</i>
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 (<i>note 12</i>)	856
Total consideration	<u>20,000</u>

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.

Net cash outflow on acquisition

	<i>HK\$'000</i>
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.

16. ACQUISITION OF SUBSIDIARIES (Continued)

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.

17. 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.

18. 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.

18. LITIGATION (Continued)

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.

19. 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 Kwow 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

20. 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.

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 markets 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.

Prospects (Continued)

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.

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.

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 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 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
			<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average exercise price			<u>HK\$0.422</u>	<u>n/a</u>	<u>n/a</u>	<u>HK\$0.422</u>

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.

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

As at the date of this announcement, the Board comprises of two executive directors, Mr. Tse On Kin and Mr. Yu Pak Yan, Peter and three independent non-executive directors, Mr. Lau Man Tak, Mr. Man Kwok Leung and Dr. Wong Yun Kuen.