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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 2012

The Board of Directors (the “Board”) of Kong Sun Holdings Limited (the “Company”) would like to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2012.

#### CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2012*

|                                                                      |              | <b>For the six months<br/>ended 30 June</b> |                       |
|----------------------------------------------------------------------|--------------|---------------------------------------------|-----------------------|
|                                                                      |              | <b>2012</b>                                 | <b>2011</b>           |
|                                                                      |              | <b>(Unaudited)</b>                          | <b>(Unaudited)</b>    |
|                                                                      | <i>Notes</i> | <b>HK\$'000</b>                             | <b>HK\$'000</b>       |
| Turnover                                                             | 3            | <u>4,157</u>                                | <u>9,475</u>          |
| Sales of life-like plants                                            |              | 3,047                                       | 6,983                 |
| Properties rental income                                             |              | <u>1,110</u>                                | <u>1,115</u>          |
|                                                                      |              | 4,157                                       | 8,098                 |
| Cost of sales                                                        |              | <u>(3,413)</u>                              | <u>(5,849)</u>        |
| Gross profit                                                         |              | 744                                         | 2,249                 |
| Other gains and losses                                               | 5            | (1,783)                                     | 3,598                 |
| Loss on fair value changes of<br>held-for-trading investments        |              | (83)                                        | (292)                 |
| Impairment loss on available-for-sale financial assets               |              | (755)                                       | —                     |
| Distribution and selling expenses                                    |              | (366)                                       | (681)                 |
| Administrative expenses                                              |              | (19,938)                                    | (12,901)              |
| Finance costs                                                        | 6            | <u>(160)</u>                                | <u>(822)</u>          |
| Loss before tax                                                      | 7            | (22,341)                                    | (8,849)               |
| Income tax credit                                                    | 8            | <u>173</u>                                  | <u>—</u>              |
| <b>Loss for the period attributable to owners<br/>of the Company</b> |              | <u><b>(22,168)</b></u>                      | <u><b>(8,849)</b></u> |
| <b>Loss per share</b>                                                |              |                                             |                       |
| Basic                                                                | 9            | <b>HK(3.08) cents</b>                       | HK(1.23) cents        |
| Diluted                                                              | 9            | <b>HK(3.08) cents</b>                       | HK(1.23) cents        |

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME***For the six months ended 30 June 2012*

|                                                                                      | <b>For the six months<br/>ended 30 June</b> |                        |
|--------------------------------------------------------------------------------------|---------------------------------------------|------------------------|
|                                                                                      | <b>2012</b>                                 | 2011                   |
|                                                                                      | <b>(Unaudited)</b>                          | (Unaudited)            |
|                                                                                      | <b>HK\$'000</b>                             | HK\$'000               |
| Loss for the period                                                                  | <u>(22,168)</u>                             | <u>(8,849)</u>         |
| <b>Other comprehensive expense</b>                                                   |                                             |                        |
| Exchange differences arising on translation of<br>foreign operations                 | (17)                                        | (2)                    |
| Loss on fair value changes of available-for-sale<br>financial assets                 | <u>—</u>                                    | <u>(18,930)</u>        |
| Other comprehensive expense for the period<br>(net of tax)                           | <u>(17)</u>                                 | <u>(18,932)</u>        |
| Total comprehensive expenses for the period<br>attributable to owners of the Company | <u><u>(22,185)</u></u>                      | <u><u>(27,781)</u></u> |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2012

|                                              |       | 30 June<br>2012<br>(Unaudited)<br>HK\$'000 | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|----------------------------------------------|-------|--------------------------------------------|----------------------------------------------|
|                                              | Notes |                                            |                                              |
| <b>Non-current assets</b>                    |       |                                            |                                              |
| Investment properties                        | 11    | 78,066                                     | 77,250                                       |
| Property, plant and equipment                | 12    | 52,225                                     | 54,768                                       |
| Prepaid lease payments                       |       | 13,712                                     | 13,948                                       |
| Available-for-sale financial assets          | 13    | 7,621                                      | 6,586                                        |
| Goodwill                                     |       | 8,582                                      | 8,582                                        |
|                                              |       | <u>160,206</u>                             | <u>161,134</u>                               |
| <b>Current assets</b>                        |       |                                            |                                              |
| Inventories                                  |       | 1,900                                      | 10,997                                       |
| Trade receivables                            | 14    | 196                                        | 10,515                                       |
| Other receivables, prepayments and deposits  |       | 2,470                                      | 6,190                                        |
| Amount due from an investee company          |       | 1,291                                      | —                                            |
| Prepaid lease payments                       |       | 473                                        | 473                                          |
| Held-for-trading investments                 |       | 1,238                                      | 1,320                                        |
| Pledged bank deposits                        |       | 1,140                                      | 1,158                                        |
| Bank balances and cash                       |       | 58,335                                     | 60,413                                       |
|                                              |       | <u>67,043</u>                              | <u>91,066</u>                                |
| <b>Current liabilities</b>                   |       |                                            |                                              |
| Trade and other payables                     | 15    | 12,841                                     | 18,983                                       |
| Bank borrowings                              |       | 9,485                                      | 5,353                                        |
| Obligations under finance leases             |       | 136                                        | 214                                          |
|                                              |       | <u>22,462</u>                              | <u>24,550</u>                                |
| <b>Net current assets</b>                    |       | <u>44,581</u>                              | <u>66,516</u>                                |
| <b>Total assets less current liabilities</b> |       | <u>204,787</u>                             | <u>227,650</u>                               |
| <b>Non-current liabilities</b>               |       |                                            |                                              |
| Bank borrowings                              |       | —                                          | 168                                          |
| Obligations under finance leases             |       | 389                                        | 716                                          |
| Deferred tax liabilities                     |       | 8,901                                      | 9,084                                        |
|                                              |       | <u>9,290</u>                               | <u>9,968</u>                                 |
| <b>Net assets</b>                            |       | <u>195,497</u>                             | <u>217,682</u>                               |
| <b>Capital and reserves</b>                  |       |                                            |                                              |
| Share capital                                | 16    | 143,793                                    | 143,793                                      |
| Reserves                                     |       | 51,704                                     | 73,889                                       |
| <b>Total equity</b>                          |       | <u>195,497</u>                             | <u>217,682</u>                               |

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

## 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 certain investment properties which are measured at fair values.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standard (“HKFRS”) issued by the HKICPA.

|                       |                                                                          |
|-----------------------|--------------------------------------------------------------------------|
| Amendments to HKFRS 1 | Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters |
| Amendments to HKFRS 7 | Disclosures — Transfers of Financial Assets                              |

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

## 3. TURNOVER

|                                                        | <b>For the six months<br/>ended 30 June</b> |             |
|--------------------------------------------------------|---------------------------------------------|-------------|
|                                                        | <b>2012</b>                                 | 2011        |
|                                                        | <b>(Unaudited)</b>                          | (Unaudited) |
|                                                        | <b>HK\$’000</b>                             | HK\$’000    |
| Sales of life-like plants                              | <b>3,047</b>                                | 6,983       |
| Properties rental income                               | <b>1,110</b>                                | 1,115       |
| Proceeds from disposal of held-for-trading investments | <b>—</b>                                    | 1,377       |
|                                                        | <b>4,157</b>                                | 9,475       |

#### 4. SEGMENT INFORMATION

The Group is organized into three (as at 30 June 2011: three) 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 (Unaudited)*

|                                             | Properties<br>investment and<br>development |              | Manufacturing<br>and sales of<br>life-like plants |                | Securities investment |                | Total           |                |
|---------------------------------------------|---------------------------------------------|--------------|---------------------------------------------------|----------------|-----------------------|----------------|-----------------|----------------|
|                                             | 2012                                        | 2011         | 2012                                              | 2011           | 2012                  | 2011           | 2012            | 2011           |
|                                             | HK\$'000                                    | HK\$'000     | HK\$'000                                          | HK\$'000       | HK\$'000              | HK\$'000       | HK\$'000        | HK\$'000       |
| Turnover                                    | <u>1,110</u>                                | <u>1,115</u> | <u>3,047</u>                                      | <u>6,983</u>   | <u>—</u>              | <u>1,377</u>   | <u>4,157</u>    | <u>9,475</u>   |
| Segment revenue                             | <u>1,110</u>                                | <u>1,115</u> | <u>3,047</u>                                      | <u>6,983</u>   | <u>—</u>              | <u>—</u>       | <u>4,157</u>    | <u>8,098</u>   |
| Segment profit (loss)                       | <u>918</u>                                  | <u>686</u>   | <u>(20,354)</u>                                   | <u>(8,891)</u> | <u>(773)</u>          | <u>(1,165)</u> | <u>(20,209)</u> | <u>(9,370)</u> |
| Unallocated corporate<br>operating income   |                                             |              |                                                   |                |                       |                | 609             | 3,343          |
| Unallocated corporate<br>operating expenses |                                             |              |                                                   |                |                       |                | (2,581)         | (2,000)        |
| Finance costs                               |                                             |              |                                                   |                |                       |                | <u>(160)</u>    | <u>(822)</u>   |
| Loss before tax                             |                                             |              |                                                   |                |                       |                | <u>(22,341)</u> | <u>(8,849)</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:

|                                             | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---------------------------------------------|------------------------------------------------------|----------------------------------------------|
| Segment assets                              |                                                      |                                              |
| Manufacturing and sales of life-like plants | <b>82,276</b>                                        | 104,183                                      |
| Properties investment and development       | <b>78,274</b>                                        | 78,301                                       |
| Securities investment                       | <b>45,896</b>                                        | 45,942                                       |
|                                             | <hr/>                                                | <hr/>                                        |
| Total segment assets                        | <b>206,446</b>                                       | 228,426                                      |
| Unallocated corporate assets                | <b>20,803</b>                                        | 23,774                                       |
|                                             | <hr/>                                                | <hr/>                                        |
| Consolidated total assets                   | <b>227,249</b>                                       | 252,200                                      |
|                                             | <hr/> <hr/>                                          | <hr/> <hr/>                                  |
|                                             | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
| Segment liabilities                         |                                                      |                                              |
| Manufacturing and sales of life-like plants | <b>6,583</b>                                         | 12,008                                       |
| Properties investment and development       | <b>365</b>                                           | 365                                          |
| Securities investment                       | <b>—</b>                                             | 25                                           |
|                                             | <hr/>                                                | <hr/>                                        |
| Total segment liabilities                   | <b>6,948</b>                                         | 12,398                                       |
| Unallocated corporate liabilities           | <b>24,804</b>                                        | 22,120                                       |
|                                             | <hr/>                                                | <hr/>                                        |
| Consolidated total liabilities              | <b>31,752</b>                                        | 34,518                                       |
|                                             | <hr/> <hr/>                                          | <hr/> <hr/>                                  |

#### 5. OTHER GAINS AND LOSSES

|                                                   | <b>For the six months<br/>ended 30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 2011<br>(Unaudited)<br>HK\$'000 |
|---------------------------------------------------|-----------------------------------------------------------------------------------|---------------------------------|
| Sample sales                                      | <b>—</b>                                                                          | 62                              |
| Overprovision of long service payment             | <b>—</b>                                                                          | 219                             |
| Net foreign exchange (loss) gain                  | <b>(648)</b>                                                                      | 2,192                           |
| Loss on disposal of property, plant and equipment | <b>(1,849)</b>                                                                    | —                               |
| Interest income                                   | <b>540</b>                                                                        | 1,108                           |
| Vehicle rental income                             | <b>69</b>                                                                         | —                               |
| Sundry income                                     | <b>105</b>                                                                        | 17                              |
|                                                   | <hr/>                                                                             | <hr/>                           |
|                                                   | <b>(1,783)</b>                                                                    | 3,598                           |
|                                                   | <hr/> <hr/>                                                                       | <hr/> <hr/>                     |

## 6. FINANCE COSTS

|                                                                                               | For the six months<br>ended 30 June |             |
|-----------------------------------------------------------------------------------------------|-------------------------------------|-------------|
|                                                                                               | 2012                                | 2011        |
|                                                                                               | (Unaudited)                         | (Unaudited) |
|                                                                                               | HK\$'000                            | HK\$'000    |
| Interest on:                                                                                  |                                     |             |
| Bank and other borrowings wholly repayable within five years                                  | 119                                 | 22          |
| Finance leases                                                                                | 41                                  | —           |
| Convertible bonds designated at financial liabilities at fair value<br>through profit or loss | —                                   | 800         |
|                                                                                               | <u>160</u>                          | <u>822</u>  |

## 7. LOSS BEFORE TAX

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

|                                                | For the six months<br>ended 30 June |              |
|------------------------------------------------|-------------------------------------|--------------|
|                                                | 2012                                | 2011         |
|                                                | (Unaudited)                         | (Unaudited)  |
|                                                | HK\$'000                            | HK\$'000     |
| Auditor's remuneration                         | —                                   | —            |
| Staff costs:                                   |                                     |              |
| Directors' remuneration                        | 1,050                               | 150          |
| Wages, salaries and other benefits             | 3,067                               | 6,909        |
| Retirement benefit costs (excluding directors) | 82                                  | 73           |
|                                                | <u>4,199</u>                        | <u>7,132</u> |
| Total staff costs                              | 4,199                               | 7,132        |
| Cost of inventories recognised as expenses     | 3,413                               | 5,849        |
| Depreciation of property, plant and equipment  | 2,602                               | 1,663        |
| Amortisation of prepaid lease payments         | 236                                 | 236          |
| Inventory written off                          | 8,727                               | —            |
| Operating lease rental on rented premises      | 467                                 | 281          |
|                                                | <u>467</u>                          | <u>281</u>   |

## 8. INCOME TAX CREDIT

Income tax for the period ended 30 June 2012 represents the net amount of deferred taxation credit of approximately HK\$180,000 and Hong Kong profits tax of approximately HK\$7,000 (for the six months ended 30 June 2011: nil).

## 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 2012 of approximately HK\$22,168,000 (2011: HK\$8,849,000) and on the weighted average of approximately 718,962,000 (2011: 718,962,000) ordinary shares issued during the period.

As at 30 June 2012, 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 2011 does not assume the exercise of the Company's outstanding share options and conversion of Company's outstanding warrants 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

|                                             | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | <b>31 December<br/>2011<br/>(Audited)<br/>HK\$'000</b> |
|---------------------------------------------|------------------------------------------------------|--------------------------------------------------------|
| Investment properties, stated at fair value | <b>78,066</b>                                        | 77,250                                                 |

At 30 June 2012, 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\$77,250,000 as at 31 December 2011 and accordingly, no fair value change has been recognised in profit or loss in the current period.

However, during the six months ended 30 June 2012, the Group incurred building renovations at a cost of approximately HK\$816,000, which is considered as additional cost of investment properties.

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

## 12. PROPERTY, PLANT AND EQUIPMENT

On 24 February 2012, Lisun Plastic Factory Limited ("Lisun"), a wholly-owned subsidiary of the Company entered into a property swap agreement with the vendors (the "Property Swap Agreement"), with a consideration of HK\$1,820,000 payable by Lisun to the vendors. Details of the Property Swap Agreement were set out in announcement of the Company dated 24 February 2012.

During the six months ended 30 June 2012, the Group acquired property, plant and equipment at a cost of approximately HK\$11,181,000 (for the six months ended 30 June 2011: approximately HK\$433,000), which included the property acquired through the Property Swap Agreement at deemed cost of HK\$8,980,000 as at the completion date of this agreement on 25 May 2012.

During the six months ended 30 June 2012, the Group disposed of certain property, plant and equipment with an aggregate carrying amount of approximately HK\$11,118,000 (for the six months ended 30 June 2011: nil), which included the property disposed through the Property Swap Agreement at HK\$7,100,000.

## 13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

|                                                      | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | <b>31 December<br/>2011<br/>(Audited)<br/>HK\$'000</b> |
|------------------------------------------------------|------------------------------------------------------|--------------------------------------------------------|
| Equity securities listed in Hong Kong, at fair value | <b>5,831</b>                                         | 6,586                                                  |
| Unlisted investment in Hong Kong ( <i>Note</i> )     | <b>1,790</b>                                         | —                                                      |
|                                                      | <b>7,621</b>                                         | 6,586                                                  |

*Note:* The Group holds 50% of the ordinary share capital of Smart Castle Limited, which is an investment holding company. The Group has no board representative in Smart Castle Limited, thus, the directors of the Company believe that the Group is not able to control or exercise significant influence over Smart Castle Limited.

#### 14. 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.

|              | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|--------------|------------------------------------------------------|----------------------------------------------|
| 1–30 days    | 185                                                  | 827                                          |
| 31–90 days   | 1                                                    | 9,091                                        |
| 91–180 days  | 10                                                   | 597                                          |
| 181–360 days | —                                                    | —                                            |
| Over 1 year  | —                                                    | —                                            |
|              | <u>196</u>                                           | <u>10,515</u>                                |

#### 15. TRADE AND OTHER PAYABLES

|                                    | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|------------------------------------|------------------------------------------------------|----------------------------------------------|
| Trade payables                     | 111                                                  | 3,616                                        |
| Other payables and accrued charges | 12,730                                               | 15,367                                       |
|                                    | <u>12,841</u>                                        | <u>18,983</u>                                |

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

|               | <b>30 June<br/>2012<br/>(Unaudited)<br/>HK\$'000</b> | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|---------------|------------------------------------------------------|----------------------------------------------|
| 1–30 days     | 111                                                  | 44                                           |
| 31–90 days    | —                                                    | 20                                           |
| 91–180 days   | —                                                    | 2,341                                        |
| Over 180 days | —                                                    | 1,211                                        |
|               | <u>111</u>                                           | <u>3,616</u>                                 |

The average credit period on purchase of goods is 30 to 90 days.

## 16. SHARE CAPITAL

|                                                                         | 30 June<br>2012<br>(Unaudited)<br>HK\$'000 | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|-------------------------------------------------------------------------|--------------------------------------------|----------------------------------------------|
| <b>Authorised:</b>                                                      |                                            |                                              |
| 2,000,000,000 (2011: 2,000,000,000)<br>ordinary shares of HK\$0.20 each | <u>400,000</u>                             | <u>400,000</u>                               |
|                                                                         | <b>Number of<br/>shares<br/>'000</b>       | <b>Share capital<br/>HK\$'000</b>            |
| <b>Issued and fully paid:</b>                                           |                                            |                                              |
| Ordinary shares of HK\$0.20 each                                        |                                            |                                              |
| At 1 January 2012 and 30 June 2012                                      | <u>718,962</u>                             | <u>143,793</u>                               |

## 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<br>2012<br>(Unaudited)<br>HK\$'000 | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|------------------------------|--------------------------------------------|----------------------------------------------|
| Within one year              | 622                                        | 174                                          |
| In the second to fifth years | <u>1,378</u>                               | <u>—</u>                                     |
|                              | <u>2,000</u>                               | <u>174</u>                                   |

Operating lease payments represented rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of 3 years (2011: 2 years) 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<br>2012<br>(Unaudited)<br>HK\$'000 | 31 December<br>2011<br>(Audited)<br>HK\$'000 |
|------------------------------|--------------------------------------------|----------------------------------------------|
| Within one year              | 1,202                                      | 2,120                                        |
| In the second to fifth years | <u>276</u>                                 | <u>2,189</u>                                 |
|                              | <u>1,478</u>                               | <u>4,309</u>                                 |

As at 30 June 2012, the investment properties are expected to generate rental yields of 2.84% (as at 31 December 2011: 2.92%) 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.

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 party 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 |                                 |
|-------------------------|------------------------|-----------------|-------------------------------------------|----------------------------------|---------------------------------|
|                         |                        |                 |                                           | 2012<br>(Unaudited)<br>HK\$’000  | 2011<br>(Unaudited)<br>HK\$’000 |
| M Dream Inworld Limited | Rental income          | Related Company | Mr. Yu Pak Yan, Peter                     | 34                               | —                               |
| Zmay Holdings Limited   | Rental income          | Related Company | Mr. Man Kwok Leung &<br>Dr. Wong Yun Kuen | —                                | 102                             |

### (b) Related party balance

As at 30 June 2012, the amount due from an investee company, which is Smart Castle Limited, of approximately HK\$1,291,000 (31 December 2011: nil) was unsecured, interest free and repayable on demand. The directors considered that the fair value of the balance included in the account at the end of the reporting period approximates the corresponding carrying amount.

## 19. RELATED PARTIES TRANSACTIONS (Continued)

### (c) 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:

|                     | <b>For the six months<br/>ended 30 June</b> |             |
|---------------------|---------------------------------------------|-------------|
|                     | <b>2012</b>                                 | 2011        |
|                     | <b>(Unaudited)</b>                          | (Unaudited) |
|                     | <b>HK\$'000</b>                             | HK\$'000    |
| Short-term benefits | <b>1,220</b>                                | 335         |

## 20. EVENTS AFTER THE REPORTING PERIOD

On 13 June 2012, the directors of the Company put forward to the shareholders a proposed capital reorganisation of the Company involving:

- (i) a proposed capital reduction of the Company by cancelling share capital paid up or credited as paid up to the extent of HK\$0.19 per share upon each of the shares in issue and by reducing the nominal value of all the issued and unissued shares in the share capital of the Company from HK\$0.20 to HK\$0.01 per share;
- (ii) a proposed change in board lot size for trading in the shares of the Company from 5,000 shares to 25,000 shares;
- (iii) a proposed increase in authorised share capital from HK\$20,000,000 (divided into 2,000,000,000 shares) to HK\$200,000,000 (divided into 20,000,000,000 shares) by the creation of an additional 18,000,000,000 shares of par value HK\$0.01 each in order to facilitate any future expansion in the share capital of the Company; and
- (iv) a proposed placing. The placing agreement dated 13 June 2012 entered into between the Company as issuer and Kingston Securities Limited as placing agent in relation to the placing of a maximum of 750,000,000 new shares of HK\$0.01 each in the share capital of the Company at a placing price of HK\$0.07 per placing share.

The special resolution and the ordinary resolutions to approve the capital reorganisation were duly passed at the extraordinary general meeting held on 30 July 2012.

## **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 2012 amounted to approximately HK\$4,157,000. Loss attributable to shareholders had been increased to approximately HK\$22,168,000 from approximately HK\$8,849,000 recorded for the period ended 30 June 2011. The substantial increase of loss for the period was mainly caused by the termination of production line of Christmas trees, which incurred a one-off fixed assets written off and inventory written off by around HK\$3,471,000 and HK\$8,727,000, respectively.

### **Properties investment and development**

The Group's properties investment and development business had contributed approximately HK\$1,110,000 to the total revenue of the Group for the six months ended 30 June 2012, which remained stable when compared with the corresponding period in 2011.

### **Life-like plants business**

The life-like plants business had contributed approximately HK\$3,047,000 to the total revenue of the Group for the six months ended 30 June 2012. The turnover of the segment decreased by approximately HK\$3,936,000 when compared with the corresponding period in 2011 of approximately HK\$6,983,000. The decrease was mainly caused by the termination of the production line of Christmas trees. Due to the increase in the cost of materials and labour cost in the People's Republic of China (the "PRC") and keen competition of the market, the business of Christmas trees declined significantly.

For the business of artificial flowers, it was also affected by adverse business environment brought by the European sovereign debt crisis and the uncertain United States economy, less sale orders were received from the Europe and United States market in the first half of the year.

### **Securities investment**

As at 30 June 2012, the Group managed a portfolio of investments in capital market with fair value of approximately HK\$7,069,000. Looking ahead, the market conditions remain somewhat uncertain, management will be watchful on market developments and continues 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.

In order to strengthen the capital base of the Group, the Group has also liaised with placing agent to issue placing shares for the Company. In view of the stabilized economic conditions of the property market, the Group is optimistic in the property market and will take appropriate strategy to expand its properties investment portfolio by acquiring properties with good commercial value, which will bring stable recurrent rental income to the Group.

The Group will continue to expand the customer base in the life-like plants business so as to keep its competitiveness in the market.

The Group will cautiously explore investment opportunities so as to produce a steady growth in the Group's long term performance.

## **Capital Structure**

The Group had no change in capital structure for the six months ended 30 June 2012.

Subsequent to 30 June 2012, the share capital of the Company had the following changes:

On 31 July 2012, there was a capital reduction of the Company by cancelling share capital paid up or credited as paid up to the extent of HK\$0.19 per share upon each of the shares in issue and by reducing the nominal value of all the issued and unissued shares in the share capital of the Company from HK\$0.20 to HK\$0.01 per share.

On 31 July 2012, there was a change in board lot size for trading in the shares of the Company from 5,000 shares to 25,000 shares.

On 31 July 2012, there was an increase in authorised share capital from HK\$20,000,000 (divided into 2,000,000,000 shares) to HK\$200,000,000 (divided into 20,000,000,000 shares) by the creation of an additional 18,000,000,000 shares of par value HK\$0.01 each.

## **Liquidity and financial resources**

As at 30 June 2012, the total shareholders fund of the Group amounted to approximately HK\$195,497,000, while there was approximately HK\$217,682,000 as at 31 December 2011.

As at 30 June 2012, the Group's debt ratio, which was calculated by the total liabilities over the total equity, was 0.16 which is the same as at 31 December 2011.

For the six months ended 30 June 2012, most assets, liabilities and transactions of the Group were 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 23 February 2012, the Group has acquired 50% equity interest of Smart Castle Limited, which is an investment holding company at a consideration of HK\$1,790,000. The Group has no board representation in Smart Castle Limited, and thus it recorded as available-for-sales financial assets for the period ended 30 June 2012.

During the six months ended 30 June 2012, the Group spent approximately HK\$2,384,000 for acquisition of fixed assets.

The Group has invested in shares of certain companies that are traded over the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). As at 30 June 2012, the Group held equity securities as long-term and short-term investments with fair value of approximately HK\$5,831,000 and HK\$1,238,000, respectively.

## **Charge on the Group’s assets and contingent liabilities**

As at 30 June 2012, the Group’s bank deposits in the amount of approximately HK\$1,140,000 (31 December 2011: approximately HK\$1,158,000) had been pledged to bank for the requirement of the customs authorities of the PRC.

As at 30 June 2012, the Group has pledged land and buildings with net book value of approximately HK\$14,144,000 (31 December 2011: approximately HK\$3,360,000) to secure general banking facilities granted to the Group.

As at 30 June 2012, the Group had no significant contingent liabilities (31 December 2011: nil).

## **Subsequent Events**

On 13 June 2012, the Company entered into a placing agreement with the placing agent for the placing of a maximum of 750,000,000 new shares of HK\$0.01 each in the share capital of the Company at a placing price of HK\$0.07 per placing share. The ordinary resolution to approve the placing was duly passed at the extraordinary general meeting held on 30 July 2012. It is expected that net maximum proceeds of approximately HK\$50.32 million will be raised by the Company. The net proceeds will be used for acquisition(s) of property(ies) for long term investments.

## **Employees and remuneration policy**

As at 30 June 2012, the Group had approximately 127 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 Rules Governing the Listing of Securities of the Stock Exchange (the “Listing Rules”).

## **DIRECTORS’ AND CHIEF EXECUTIVES’ INTERESTS IN SHARES**

As at 30 June 2012, 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 2012, the following shareholder 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:

| <b>Name</b> | <b>Capacity</b>  | <b>Number of<br/>ordinary<br/>shares held</b> | <b>Percentage of<br/>issued<br/>share capital</b> |
|-------------|------------------|-----------------------------------------------|---------------------------------------------------|
| 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 2012.

## SHARE OPTION SCHEME

The share option scheme (the “Share Option Scheme”) was adopted by the Company on 22 July 2009, which replaced its old share option scheme adopted in 2003. No movements in the Company’s Share Option Scheme for the six months ended 30 June 2012. Particulars of the outstanding share options are as follows:

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

## CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of the Corporate Governance Code and Corporate Governance Report 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. Chan Chi Yuen, 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 BY DIRECTORS**

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 2012.

## **PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES**

During the six months ended 30 June 2012, 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 judgmental issues, accounting estimates, adequacy of disclosures and internal consistency of the interim financial report for the six months ended 30 June 2012.

On behalf of the Board  
**Chan Chi Yuen**  
*Chairman*

Hong Kong, 24 August 2012

*As at the date of this announcement, the Board comprises of two executive directors, Mr. Chan Chi Yuen 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.*