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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)

2011 RESULTS ANNOUNCEMENT

The Board of Directors (the “Board”) of Kong Sun Holdings Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2011.

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2011

		2011	As restated 2010
	Notes	HK\$'000	HK\$'000
Turnover	3	72,844	84,262
Sale of life-like plants	3	69,171	82,006
Properties rental income	3	2,258	1,702
Dividend income from equity investments	3	38	—
		71,467	83,708
Cost of sales		(67,332)	(72,261)
Gross profit		4,135	11,447
Loss on fair value changes of held-for-trading investments		(1,252)	(1,120)
Loss on disposal of held-for-trading investments		(873)	(67)
Impairment loss on available-for-sale financial assets		(11,358)	—
Gain on fair value changes of investment properties		19,720	5,895
Other revenue	5	7,177	816
Distribution and selling expenses		(2,852)	(3,718)
Administrative expenses		(22,827)	(30,069)
Finance costs	6	(1,900)	(3,243)
Fair value changes of convertible bonds		(32,706)	4,306
Loss on derecognition of contingent consideration		(856)	—
Loss on early redemption of promissory note		—	(9,577)
Loss before tax		(43,592)	(25,330)
Income tax credit	7	176	1,426
Loss for the year attributable to owners of the Company	8	(43,416)	(23,904)
Loss per share			
Basic and diluted	9	HK(6.04) cents	HK(4.63) cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

		2011	As restated 2010
	Note	HK\$'000	HK\$'000
Loss for the year	8	<u>(43,416)</u>	<u>(23,904)</u>
Other comprehensive (expenses) income			
Exchange differences arising on translation of foreign operations		47	—
(Loss) gain on fair value changes of available-for-sale financial assets		(21,546)	10,188
Reclassification to consolidated income statement:			
Impairment loss on available-for-sale financial assets		<u>11,358</u>	<u>—</u>
Other comprehensive (expenses) income for the year, net of income tax		<u>(10,141)</u>	<u>10,188</u>
Total comprehensive expenses for the year attributable to owners of the Company		<u><u>(53,557)</u></u>	<u><u>(13,716)</u></u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2011

		At 31 December 2011 <i>Notes</i> HK\$'000	As restated At 31 December 2010 <i>HK\$'000</i>	As restated At 1 January 2010 <i>HK\$'000</i>
Non-current assets				
Investment properties		77,250	57,160	50,315
Property, plant and equipment		54,768	35,756	37,266
Prepaid lease payments		13,948	14,421	14,894
Available-for-sale financial assets		6,586	28,132	—
Goodwill		8,582	—	—
		161,134	135,469	102,475
Current assets				
Inventories	10	10,997	14,325	13,001
Trade receivables	11	10,515	1,362	3,623
Other receivables, prepayments and deposits		6,190	2,552	3,082
Prepaid lease payments		473	473	473
Held-for-trading investments		1,320	4,822	4,063
Tax recoverable		—	—	126
Pledged bank deposits		1,158	7,018	6,962
Time deposits with maturities over three months		—	118,721	—
Bank balances and cash		60,413	16,642	118,634
		91,066	165,915	149,964
Current liabilities				
Trade and other payables	12	18,983	16,285	10,750
Bank borrowings		5,353	—	—
Obligations under finance leases		214	—	—
Convertible bonds		—	7,294	—
		24,550	23,579	10,750
Net current assets		66,516	142,336	139,214
Total assets less current liabilities		227,650	277,805	241,689

	At 31 December 2011 <i>HK\$'000</i>	As restated At 31 December 2010 <i>HK\$'000</i>	As restated At 1 January 2010 <i>HK\$'000</i>
Non-current liabilities			
Bank borrowings	168	—	—
Obligations under finance leases	716	—	—
Convertible bonds	—	—	11,600
Promissory notes	—	—	23,130
Deferred tax liabilities	9,084	6,566	7,992
	9,968	6,566	42,722
Net assets	217,682	271,239	198,967
Capital and reserves			
Share capital	143,793	143,793	83,782
Reserves	73,889	127,446	115,185
Total equity	217,682	271,239	198,967

NOTES TO THE FINANCIAL STATEMENTS

1. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared on the historical cost basis except for investment properties and certain financial instruments that are measured at fair values, as explained in the accounting policies. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

In the current year, the Group has applied the following new and revised HKFRSs issued by the HKICPA. In addition, the Group has early adopted the amendments to Hong Kong Accounting Standard (“HKAS”) 12 “Deferred Tax — Recovery of Underlying Assets” in respect of the recognition of deferred tax on investment properties carried at fair value under HKAS 40 “Investment Property”.

HKFRS 1 Amendment	Limited Exemption from Comparative HKFRS 7 Disclosures for First-time Adopters
Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Right Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK (IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

Except as described below, the adoption of these new and revised HKFRSs in the current year had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 12 Deferred Tax — Recovery of Underlying Assets

Amendments to HKAS 12 have been applied in advance retrospectively of their effective date (annual period beginning on or after 1 January 2012). The amendments to HKAS 12 provide an exception to the general principles in HKAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset. Specifically, under the amendments, investment properties that are measured using the fair value model in accordance with HKAS 40 “Investment Property” are presumed to be recovered through sale for the purpose of measuring deferred taxes, unless the presumption is rebutted in certain circumstance.

As a result, the Group’s investment properties that are measured using the fair value model have been presumed to be recovered through sale for the purpose of measuring deferred tax liabilities and deferred tax assets in respect of such properties. This resulted in deferred tax liabilities being decreased by approximately HK\$4,903,000 and HK\$5,837,000 as at 1 January 2010 and 31 December 2010 respectively, with the corresponding adjustment being recognised in retained earnings/accumulated losses.

In the current year, no deferred tax has been provided for in respect of changes in fair value of such investment properties, whereas previously deferred tax liabilities were provided for in relation to the changes in fair value of such investment properties. The application of the amendments has resulted in loss for the year being decreased by approximately HK\$3,217,000 (2010: HK\$934,000).

The adoption of amendments to HKAS 12 had no impact on the Company's financial performance and positions for the current and prior years and/or on the disclosures as the Company do not have any investment property.

Summary of the effects of the above changes in accounting policy

- (i) The effects of changes in accounting policy described above on the results for the current and prior years by line items are as follows:

	2011 HK\$'000	2010 HK\$'000
Decrease in taxation and decrease in loss for the year	<u>3,217</u>	<u>934</u>
Decrease in loss for the year attributable to owners of the Company	<u>3,217</u>	<u>934</u>

- (ii) The effect of the above changes in accounting policy on the financial position of the Group as at 1 January 2010 and 31 December 2010 are as follows:

	At 31 December 2010			At 1 January 2010		
	Originally stated HK\$'000	Amendments to HKAS12 HK\$'000	Restated HK\$'000	Originally stated HK\$'000	Amendments to HKAS12 HK\$'000	Restated HK\$'000
Deferred taxation (Accumulated losses)	(12,403)	5,837	(6,566)	(12,895)	4,903	(7,992)
Retained earnings	(20,328)	5,837	(14,491)	4,510	4,903	9,413

- (iii) The effects of the above changes in accounting policy on the Group's basic and diluted loss per share for the current and prior years are as follows:

	Impact on basic and diluted loss per share	
	2011 HK cents	2010 HK cents
Figures before adjustments	(6.49)	(4.81)
Adjustments arising from changes in the Group's accounting policy in relation to: Deferred tax for investment properties	<u>0.45</u>	<u>0.18</u>
Figures after adjustments	<u>(6.04)</u>	<u>(4.63)</u>

New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKFRS 1 (Amendment)	Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters ¹
Amendments to HKFRS 7	Disclosures — Transfers of Financial Assets ¹ Disclosures — Offsetting Financial Assets and Financial Liabilities ² Mandatory Effective Date of HKFRS 9 and Transition Disclosures ³
HKFRS 9	Financial Instruments ³
HKFRS 10	Consolidated Financial Statements ²
HKFRS 11	Joint Arrangements ²
HKFRS 12	Disclosure of Interests in Other Entities ²
HKFRS 13	Fair Value Measurement ²
Amendment to HKAS 1	Presentation of Items of Other Comprehensive Income ⁴
HKAS 19 (as revised in 2011)	Employee Benefits ²
HKAS 27 (as revised in 2011)	Separate Financial Statements ²
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures ²
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities ⁵
HK (IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine ²

¹ Effective for annual periods beginning on or after 1 July 2011.

² Effective for annual period beginning on or after 1 January 2013.

³ Effective for annual periods beginning on or after 1 January 2015.

⁴ Effective for annual periods beginning on or after 1 July 2012.

⁵ Effective for annual periods beginning on or after 1 January 2014.

Amendments to HKFRS 7 Disclosures — Transfers of Financial Assets

The amendments to HKFRS 7 increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period.

The directors of the Company anticipate that the application of the amendments to HKFRS 7 will affect the Group's disclosures regarding transfers of financial assets in the future.

Amendments to HKAS 32 Offsetting Financial Assets and Financial Liabilities and amendments to HKFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offsetting requirements. Specifically, the amendments clarify the meaning of “currently has a legally enforceable right of set-off” and “simultaneous realisation and settlement”.

The amendments to HKFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amended offsetting disclosures are required for annual periods beginning on or after 1 January 2013 and interim periods within those annual periods. The disclosures should also be provided retrospectively for all comparative periods. However, the amendments to HKAS 32 are not effective until annual periods beginning on or after 1 January 2014, with retrospective application required.

HKFRS 9 Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- The most significant effect of HKFRS 9 regarding the classification and measurement of financial liabilities relates to the presentation of changes in the fair value of a financial liability (designated as at fair value through profit or loss) (“FVTPL”) attributable to changes in the credit risk of that liability. Specifically, under HKFRS 9, for financial liabilities that are designated as at FVTPL, the amount of changes in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the changes in the fair value of the financial liability designated as at FVTPL was presented in profit or loss.

The directors of the Company are in the process of assessing the impact from application of the new standard on the results and the financial position of the Company.

New and revised Standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation — Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor’s returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 11 replaces HKAS 31 *Interests in Joint Ventures* and HK (SIC)-Int 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under HKFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under HKAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under HKFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under HKAS 31 can be accounted for using the equity method of accounting or proportionate accounting.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors of the Company anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. The application of these five standards may have significant impact on amounts reported in the consolidated financial statements. However, the directors of the Company have not yet performed a detailed analysis of the impact of the application of these standards and hence have not yet quantified the extent of the impact.

HKFRS 13 Fair Value Measurement

HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of HKFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in HKFRS 13 are more extensive than those in the current standards. For example, quantitative and qualitative disclosures based on the three-level fair value hierarchy currently required for financial instruments only under HKFRS 7 Financial Instruments: Disclosures will be extended by HKFRS 13 to cover all assets and liabilities within its scope.

HKFRS 13 is effective for annual periods beginning on or after 1 January 2013, with earlier application permitted.

The directors of the Company anticipate that HKFRS 13 will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013 and that the application of the new standard may affect the amounts reported in the consolidated financial statements and result in more extensive disclosures in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in the future accounting periods.

3. TURNOVER

An analysis of the Group's turnover for the year is as follows:

	2011 HK\$'000	2010 HK\$'000
Sale of life-like plants	69,171	82,006
Properties rental income	2,258	1,702
Dividend income from held-for-trading investment	38	—
Proceeds from disposal of held-for-trading investments	1,377	554
	<u>72,844</u>	<u>84,262</u>

The direct operating expenses from investment properties that generated rental income amounted to approximately HK\$159,000 (2010: HK\$105,000) for the year ended 31 December 2011.

4. SEGMENT INFORMATION

Information reported to the board of directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on types of goods and investments.

Specifically, the Group's reportable segments under HKFRS 8 are as follows:

- (a) Manufacturing and sale of life-like plants
- (b) Properties investment
- (c) Securities investment

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable segment.

For the year ended 31 December 2011

	Manufacturing and sale of life-like plants <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>69,171</u>	<u>2,258</u>	<u>1,415</u>	<u>72,844</u>
Segment revenue	<u>69,171</u>	<u>2,258</u>	<u>38</u>	<u>71,467</u>
Segment (loss) profit	<u>(15,669)</u>	<u>21,366</u>	<u>3,043</u>	<u>8,740</u>
Unallocated corporate operating income				12
Unallocated corporate operating expenses				(5,524)
Finance costs				(1,900)
Impairment loss on available-for-sale financial assets				(11,358)
Loss on derecognition of contingent consideration				(856)
Fair value changes of convertible bonds				<u>(32,706)</u>
Loss before tax				<u><u>(43,592)</u></u>

For the year ended 31 December 2010

	Manufacturing and sale of life-like plants <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Total <i>HK\$'000</i>
Turnover	<u>82,006</u>	<u>1,702</u>	<u>554</u>	<u>84,262</u>
Segment revenue	<u>82,006</u>	<u>1,702</u>	<u>—</u>	<u>83,708</u>
Segment (loss) profit	<u>(12,422)</u>	<u>6,914</u>	<u>(1,187)</u>	<u>(6,695)</u>
Unallocated corporate operating income				437
Unallocated corporate operating expenses				(10,558)
Finance costs				(3,243)
Fair value changes of convertible bonds				4,306
Loss on early redemption of promissory note				<u>(9,577)</u>
Loss before tax				<u><u>(25,330)</u></u>

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales for both years.

The accounting policies of the reportable segments are the same as the Group's accounting policies. Segment (loss) profit represents the (loss from) profit earned by each segment without allocation of certain indirect administration costs, interest income, directors' emoluments, fair value changes of convertible bonds, finance cost, loss on derecognition of contingent consideration, impairment loss on available-for-sale financial assets and loss on early redemption of promissory note. This is the measure reported to the chief operating decision marker for the purposes of resource allocation and assessment of segment performance.

Segment assets and liabilities

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

	At 31 December 2011 HK\$'000	As restated At 31 December 2010 HK\$'000	As restated At 1 January 2010 HK\$'000
Segment assets			
Manufacturing and sale of life-like plants	104,183	66,016	71,616
Properties investment	78,301	57,999	50,771
Securities investment	45,942	5,336	4,063
Total segment assets	228,426	129,351	126,450
Unallocated corporate assets	23,774	172,033	125,989
Consolidated total assets	252,200	301,384	252,439
	At 31 December 2011 HK\$'000	As restated At 31 December 2010 HK\$'000	As restated At 1 January 2010 HK\$'000
Segment liabilities			
Manufacturing and sale of life-like plants	12,008	9,402	3,906
Properties investment	365	450	402
Securities investment	25	—	—
Total segment liabilities	12,398	9,852	4,308
Unallocated corporate liabilities	22,120	20,293	49,164
Consolidated total liabilities	34,518	30,145	53,472

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than certain available-for-sale financial assets, other receivables, prepayments and deposits, pledged bank deposits, time deposits with maturities over three months and bank balances and cash as these assets are managed on a group basis.
- all liabilities are allocated to reportable segments other than certain other payables, deferred tax liabilities, convertible bonds, bank borrowings, obligations under finance leases and promissory notes as these liabilities are managed on a group basis.

Other segment information

2011

	Manufacturing and sale of life-like plants <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (<i>Note</i>)	3,051	399	—	—	3,450
Amortisation of prepaid lease payments	473	—	—	—	473
Depreciation of property, plant and equipment	4,179	65	—	—	4,244
Gain on fair value changes of investment properties	—	(19,720)	—	—	(19,720)
Loss on derecognition of contingent consideration	—	—	—	856	856
Impairment loss on available-for-sale financial assets	—	—	—	11,358	11,358
Loss on fair value changes of held-for-trading investments	—	—	1,252	—	1,252
Loss on disposal of held-for- trading investments	—	—	873	—	873
Loss on written off property, plant and equipment	—	278	—	—	278
Gain on disposal of plant and equipment	(2,073)	—	—	—	(2,073)
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss					
Interest income	(8)	—	—	(1,643)	(1,651)
Finance costs	318	—	—	1,582	1,900
Income tax (credit) expenses	(213)	37	—	—	(176)
Fair value changes of convertible bonds	—	—	—	32,706	32,706

Other segment information

2010

	Manufacturing and sale of life-like plants <i>HK\$'000</i>	Properties investment <i>HK\$'000</i>	Securities investment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Amounts included in the measure of segment profit or loss or segment assets:					
Additions to non-current assets (<i>Note</i>)	1,407	1,166	—	—	2,573
Amortisation of prepaid lease payments	473	—	—	—	473
Depreciation of property, plant and equipment	2,979	154	—	—	3,133
Gain on fair value changes of investment properties	—	(5,895)	—	—	(5,895)
Loss on fair value changes of held-for-trading investments	—	—	1,120	—	1,120
Loss on disposal of held-for-trading investments	—	—	67	—	67
Amounts regularly provided to the chief operating decision maker but not included in the measure of segment profit or loss:					
Interest income	(14)	—	—	(423)	(437)
Finance costs	27	—	—	3,216	3,243
Income tax credit, as restated	(363)	(1,063)	—	—	(1,426)
Fair value changes of convertible bonds	—	—	—	(4,306)	(4,306)
Loss on early redemption of promissory note	—	—	—	9,577	9,577

Note: Non-current assets excluded those relating to financial instruments.

Geographical information

The Group's operations are located in Hong Kong (place of domicile) and the People's Republic of China (the "PRC").

The Group's revenue from external customers and information about its non-current assets by geographical locations of the assets are detailed below:

	Revenue from external customers		Non-current assets (<i>Note</i>)	
	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Hong Kong (place of domicile)	8,148	4,318	86,026	57,668
PRC	—	—	68,522	49,669
USA	58,789	74,582	—	—
Others	4,530	4,808	—	—
	<u>71,467</u>	<u>83,708</u>	<u>154,548</u>	<u>107,337</u>

Note: Non-current assets excluded those relating to financial instruments.

Information about major customers

Revenue from customer of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2011 HK\$'000	2010 HK\$'000
Customer A	<u>54,383</u>	<u>72,387</u>

All revenue generated from the major customer relates to the sale of life-like plants.

5. OTHER REVENUE

	2011 HK\$'000	2010 HK\$'000
Net foreign exchange gain	3,083	—
Gain on disposal of plant and equipment	2,073	—
Interest income	1,651	437
Sundry income	<u>370</u>	<u>379</u>
	<u>7,177</u>	<u>816</u>

6. FINANCE COSTS

	2011 HK\$'000	2010 HK\$'000
Interest on:		
Bank and other borrowings wholly repayable within five years	259	—
Finance leases	28	—
Interest on convertible bonds	1,582	1,600
Interest on promissory notes	—	1,616
Interest on bank overdrafts	<u>31</u>	<u>27</u>
	<u>1,900</u>	<u>3,243</u>

7. INCOME TAX CREDIT

	2011 HK\$'000	As restated 2010 HK\$'000
Under provision in prior years:		
PRC Enterprise Income Tax	111	—
Deferred tax:		
Current year	<u>(287)</u>	<u>(1,426)</u>
	<u>(176)</u>	<u>(1,426)</u>

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision for Hong Kong profit tax has been made as the Group has no estimated assessable profits arising in Hong Kong during the two years ended 31 December 2011 and 2010.

Under the Law of the PRC on Enterprise Income Tax (the “EIT Law”) and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiary is 25% for both years.

8. LOSS FOR THE YEAR

Loss for the year has been arrived at after charging (crediting):

	2011 <i>HK\$'000</i>	2010 <i>HK\$'000</i>
Auditor's remuneration	814	650
Staff costs:		
Directors' remuneration	304	300
Wages, salaries and other benefits (excluding directors)	15,125	14,378
Share-based payment expense	—	447
Retirement benefit costs (excluding directors)	313	360
Total staff costs	15,742	15,485
Share-based payment expense (<i>Note</i>)	—	3,000
Cost of inventories recognised as an expense	67,332	72,261
Amortisation of prepaid lease payments	473	473
Depreciation of property, plant and equipment	4,244	3,133
Operating lease rental on rented premises	879	536
Net foreign exchange (gain) losses	(3,083)	1,889

Note: For the year ended 31 December 2010, share-based payment expense included the amount of approximately HK\$447,000 in relation to the share options granted to an employee as set out in the staff costs.

9. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2011 <i>HK\$'000</i>	As restated 2010 <i>HK\$'000</i>
Loss for the year attributable to owners of the Company	(43,416)	(23,904)
	Number of shares	
	2011	2010
	'000	'000
Weighted average number of ordinary shares for the purpose of basic loss per share	718,962	516,526

The computation of diluted loss per share 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 from continuing operations for both years ended 31 December 2010 and 2011.

The computation of diluted loss per share does not assume the exercise of the Company's outstanding convertible bonds because the exercise price of the convertible bonds was higher than the average market price for shares for the year ended 31 December 2010.

10. INVENTORIES

	At 31 December 2011 HK\$'000	At 31 December 2010 HK\$'000	At 1 January 2010 HK\$'000
Raw materials	9,741	12,573	11,126
Work in progress	734	1,127	1,383
Finished goods	522	625	492
	<u>10,997</u>	<u>14,325</u>	<u>13,001</u>

11. TRADE RECEIVABLES

	At 31 December 2011 HK\$'000	At 31 December 2010 HK\$'000	At 1 January 2010 HK\$'000
Trade receivables	<u>10,515</u>	<u>1,362</u>	<u>3,623</u>

The Group allows a credit period normally ranging from 0 day to 90 days to its trade customers. The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period. The Group does not hold any collateral over these balances.

	At 31 December 2011 HK\$'000	At 31 December 2010 HK\$'000	At 1 January 2010 HK\$'000
1 to 30 days	827	46	182
31 to 90 days	9,091	565	1,342
91 to 180 days	597	740	2,041
181 to 360 days	—	—	—
1 to 2 years	—	11	29
Over 2 years	—	—	29
	<u>10,515</u>	<u>1,362</u>	<u>3,623</u>

12. TRADE AND OTHER PAYABLES

	At 31 December 2011 HK\$'000	At 31 December 2010 HK\$'000	At 1 January 2010 HK\$'000
Trade payables	3,616	4,147	3,315
Other payables and accrued charges	15,367	12,138	7,435
	<u>18,983</u>	<u>16,285</u>	<u>10,750</u>

The following is an aged analysis of trade payables presented based on the invoice date at the end of the reporting period:

	At 31 December 2011 HK\$'000	At 31 December 2010 HK\$'000	At 1 January 2010 HK\$'000
1 to 30 days	44	7	120
31 to 90 days	20	829	2,363
91 to 180 days	2,341	3,271	822
181 to 360 days	1,211	40	—
Over 1 years	—	—	10
	<u>3,616</u>	<u>4,147</u>	<u>3,315</u>

The average credit period on purchases of goods is 30 to 90 days. The Group has financial risk management policies in place to ensure that all payables are settled within the credit timeframe.

13. 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 these consolidated financial statements, 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 to 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 2011 and 2010, 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 consolidated financial statements.

14. ACQUISITION OF A SUBSIDIARY

On 31 May 2011, the Group acquired 100% equity interest of Lisun Plastic Factory Limited and its subsidiary (together as “Lisun Group”) at a total consideration of HK\$20,000,000. Lisun Group is engaged in manufacturing and sale of artificial flowers and was acquired to provide an opportunity for the Group to diversify its products and expand its customer base. The acquisition has been accounted for using acquisition method. The amount of goodwill arising as a result of the acquisition was approximately HK\$8,582,000.

The net assets acquired in the transaction, and the goodwill arising, are as follows:

	Net book value at 31 May 2011 HK\$'000	Fair value adjustments HK\$'000	Fair value at 31 May 2011 HK\$'000
Net assets acquired			
Property, plant and equipment	7,407	13,818	21,225
Inventories	3,017		3,017
Trade and other receivables	3,490		3,490
Amount due from a related company	756		756
Pledged bank deposits	103		103
Bank balances and cash	472		472
Bank overdraft	(2,796)		(2,796)
Trade and other payables	(2,873)		(2,873)
Amount due to a related company	(3,807)		(3,807)
Obligations under finance leases	(293)		(293)
Bank and mortgage loan	(5,927)		(5,927)
Deferred tax liabilities	—	(2,805)	(2,805)
Net identifiable assets and liabilities	(451)	11,013	10,562
Arising on acquisition:			
Goodwill			8,582
Contingent consideration			856
Total consideration for acquisition			20,000
Analysis of net outflow of cash and cash equivalents in respect of the acquisition of Lisun Group:			
Cash consideration paid			20,000
Less: Bank balances and cash acquired			(472)
Add: Bank overdraft acquired			2,796
Net cash outflow in respect of the acquisition of the subsidiary			22,324

Pursuant to the terms of the sale and purchase agreement, Reach Billion Limited (the “Vendor”) and Ms. Chu (the “Guarantor”) undertake to Smart Future Investments Limited, a subsidiary of the Company (the “Purchaser”) 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 (the “Profit Guarantee”). In the event that the 2011 Net Profit is less than the amount of Profit Guarantee, the Vendor and the Guarantor are required to pay the shortfall of the Profit Guarantee multiply by six to the Purchaser. 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\$856,000 at the date of acquisition is presented separately on the Company’s consolidated statement of financial position. The fair values was determined with reference to the valuation by an independent qualified professional valuer, Kovas Magni Appraisal Limited. Changes in variables and assumptions may result in changes in the fair value.

As the contingent arrangement contains various embedded derivatives, the directors of the Company determined that the contingent arrangement be designated as “financial assets at FVTPL” which shall be carried at fair value at end of the reporting period. During the year ended 31 December 2011, the carrying amount of the contingent consideration of approximately HK\$856,000 was charged to the consolidated income statement of the Company as a result of the fact that the Profit Guarantee was met.

Since its acquisition by the Group, the Lisun Group contributed approximately HK\$8,747,000 and a profit of approximately HK\$600,000 to the Group’s turnover and loss for the year ended 31 December 2011 respectively.

Had the acquisition of the Lisun Group been completed on 1 January 2011, total Group’s turnover for the year would have been approximately HK\$75,197,000, and the Group’s loss for the year would have been approximately HK\$44,064,000.

Goodwill arose on acquisition of the Lisun Group represents the control premium.

No goodwill arising on this acquisition is expected to be deductible for tax purposes.

15. CONTINGENT LIABILITIES

Financial guarantee issued

As at the end of the reporting period, the Company has issued a guarantee to bank in respect of banking facilities of approximately HK\$9,200,000 granted to a wholly owned subsidiary, Lisun Plastic Factory Limited (“Lisun”).

The subsidiary is an entity covered by a guarantee arrangement issued by the Company to a bank in respect of banking facilities granted to the subsidiary which remains in force so long as the subsidiary has drawn down under the banking facilities. Under the guarantee, the Company is a party to the guarantee for all borrowings of subsidiary from the bank which is the beneficiary of the guarantee.

As at the end of the reporting period, the directors of the Company do not consider it probable that a claim will be made against the Company under any of the guarantee. The maximum liability of the Company at the end of the reporting period under the guarantee issued is the outstanding amount of the facility drawn down by Lisun of approximately HK\$4,597,000. Fair value of financial guarantee at inception date amounted to approximately HK\$470,000 was arrived at on the basis of a valuation carried out by Grant Sherman Appraisal Limited, an independent qualified professional valuer not connected with the Group. Grant Sherman Appraisal Limited has appropriate qualifications and recent experience in the valuation of similar properties in the relevant financial guarantee. The valuation was arrived at by reference to market evidence of transaction prices for similar financial guarantee. During the year ended 31 December 2011, an amortisation on financial guarantee of approximately HK\$235,000 has been recognised in the Company’s income statement.

16. EVENTS AFTER THE REPORTING PERIOD

(i) Swap of Properties

On 24 February 2012, Lisun entered into the property swap agreement with the jointly vendors (the “Vendors”), Mr. Choi Ka Chun and Ms. Leung Yuen Yee, pursuant to which Lisun will transfer the ownership of property located at Unit 2C, Cheong Wah Factory Building, 39–41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong (“Property I”) to the Vendors and the Vendors will transfer the ownership of Unit 9C, Cheong Wah Factory Building, 39–41 Sheung Heung Road, Tokwawan, Kowloon, Hong Kong (“Property II”) to Lisun. Upon completion which is expected to be on or before 31 May 2012, Lisun will become the owner of Property II and the Vendors will become the owner of Property I. Lisun will pay Vendors a consideration of HK\$1,820,000.

The transfer constitutes a discloseable transaction of the Company under the Listing Rules and the details of which are set out in the Company’s announcement dated 24 February 2012.

(ii) Investment in Smart Castle Limited

On 23 February 2012, Lisun entered into a deed of assignment with Market Talent Limited, the assignor (the “Assignor”) and shareholder of Smart Castle Limited, an independent third party to the Group. On the same day, Lisun acquired one ordinary share of HK\$1 in the issued share capital of Smart Castle Limited, a company incorporated in Hong Kong with limited liability, at a consideration of HK\$1.

Consequently, Lisun would own as to 50% equity interest of Smart Castle Limited and the Assignor assigns all its rights, titles, benefits and interest in the debt from Smart Castle Limited amounting to HK\$1,790,000 to Lisun. Lisun does not have any intention to appoint any director to the board of Smart Castle Limited. The transfer of the ordinary share was completed on 23 February 2012.

The acquisition and debt assignment do not constitute notifiable transactions of the Company under the Listing Rules.

17. COMPARATIVE FIGURES

With a review of consolidated financial statements presentation, the consolidated financial statements presentation has been revised which would result in a more appropriate presentation of events or transactions. Accordingly, comparative figures have been reclassified.

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 sale of life-like plants and securities investment.

For the year ended 31 December 2011, the turnover of the Group amounted to approximately HK\$72,844,000. Loss attributable to shareholders has increased to approximately HK\$43,416,000 from approximately HK\$23,904,000 recorded in last year. The increase of loss for the year was mainly contributed by the overall decrease in gross profit margin of the Group, impairment loss on available-for-sale financial assets, fair value changes of convertible bonds and gain on fair value changes of investment properties.

Properties Investment and Development

The Group's properties investment and development business had contributed approximately HK\$2,258,000 to the total revenue of the Group for the year ended 31 December 2011. The turnover remained stable during the year. Given the result of low interest rate environment and land auctions with historical high prices, it gave a positive effect on both property prices and transaction volume. The Group's investment properties were valued approximately HK\$77,250,000 as at 31 December 2011, which represented an increment of approximately HK\$20,090,000 as compared to last year. It is expected that the revenue from the properties investment business would have a steady growth in the coming future.

Life-like Plants Business

The life-like plants business had contributed approximately HK\$69,171,000 to the total revenue of the Group for the year ended 31 December 2011. The newly acquired business which is engaged in manufacturing and sale of artificial flowers had contributed approximately HK\$8,747,000 to the Group's total revenue since the completion of the acquisition in May 2011. However, due to the adverse business environment caused by the debt crisis in Europe and the United States in the second half of 2011, less sale orders were received. In addition, the continuously rise of production costs in the PRC, including but not limited to the labour costs, made the business environment became more challenging. Despite the above factors, the Group will focus on the enhancement in production innovation and closely monitor the costs in order to maintain the competitiveness in the industry.

Securities Investment

As at 31 December 2011, the Group managed a portfolio of investments in capital market with fair value of approximately HK\$7,906,000. The Group will be watchful on market developments and will continue to be prudent in managing its investment portfolio with a continuing focus on improving overall asset quality.

Prospects

Going to the new financial year, anticipated continuous inflation in the PRC caused by the strong demand of Renminbi (“RMB”), the labour costs and the raw material prices are expected to be in up trend. In order to maintain the competitiveness in life-like plants business, the Group will keep focus on production efficiency improvements and innovative product design. The Group is also actively looking for new investments and business opportunities to deliver the greatest return to shareholders.

Capital Structure

During the year ended 31 December 2011, the Group had no change in capital structure.

Investment Position and Planning

On 31 May 2011, the Group has acquired 100% equity interest of Lisun Plastic Factory Limited together with its subsidiary which are engaged in manufacturing and sale of artificial flowers at a consideration of HK\$20,000,000.

During the year ended 31 December 2011, the Group spent approximately HK\$3,080,000 for acquisition of plant and machinery, leasehold improvement and motor vehicles.

The Group has invested in shares of certain companies that are traded over the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). During the year ended 31 December 2011, the Group has disposed of equity securities of a company listed on the Stock Exchange. As at 31 December 2011, the Group held long-term and short-term investments with fair value of approximately HK\$6,586,000 and HK\$1,320,000, respectively.

Saved as disclosed above, the Group did not have any other significant investment and there are no other material acquisition or disposal of subsidiaries and associated company during the year.

Charge on the Group’s Assets and Contingent Liabilities

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

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

Details of the contingent liabilities as at 31 December 2011 are set out in note 15 to the financial statements in this announcement.

Employees and Remuneration Policies

As at 31 December 2011, the Group has approximately 169 employees located in Hong Kong and the PRC. They are remunerated according to the nature of the job market trends, with build-in-merit components incorporated in annual review to reward and motivate individual performance.

Liquidity and Financial Resources

As at 31 December 2011, the total shareholders fund of the Group amounted to approximately HK\$217,682,000 (2010: HK\$271,239,000), total assets of approximately HK\$252,200,000 (2010: HK\$301,384,000), current liabilities of approximately HK\$24,550,000 (2010: HK\$23,579,000) and non-current liabilities of approximately HK\$9,968,000 (2010: HK\$6,566,000).

The debt ratio (based on the total liabilities over the equity) of the Group increased from the ratio of 0.11 as at 31 December 2010 to 0.16 as at 31 December 2011.

The Group's business operation and investments are in Hong Kong and the PRC, most of the assets, liabilities and transactions of the Group are denominated in Hong Kong dollars and RMB. The Group does not enter into any instruments on the foreign exchange exposure. The Group will closely monitor exchange rate movement and will take appropriate activities to reduce the exchange risk.

FINAL DIVIDEND

The Board does not recommend to declare a dividend for the year ended 31 December 2011 at the forthcoming annual general meeting (2010: nil).

AUDIT COMMITTEE

The audit committee has three independent non-executive directors of the Company. The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial report matters including a review of the audited consolidated financial statements for the year ended 31 December 2011.

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 (the "CG Code") to the Rules Governing the Listing of Securities of the Stock Exchange ("Listing Rules") during the year 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 announcement. 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 Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive directors and senior management who are in charge of different functions complement the role of the chairman and chief executive officer. The Board believes that this structure is conducive to strong and consistent leadership enabling the Group to operate efficiently.

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

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules as the Company’s code of conduct for dealings in securities of the Company by directors. Having made specific enquiry of the directors, the directors confirmed that they have complied with the code throughout the year ended 31 December 2011.

PURCHASE, REDEMPTION OR SALE OF COMPANY’S LISTED SECURITIES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed securities during the year.

By order of the Board
Kong Sun Holdings Limited
Chan Chi Yuen
Chairman

Hong Kong, 26 March 2012

As at the date of this announcement, the board of directors of the Company comprise 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.