



GFT HOLDINGS LIMITED
真樂發控股有限公司*
(incorporated in Bermuda with limited liability)
(stock code: 1003)

FINAL RESULTS ANNOUNCEMENT
FOR THE YEAR ENDED 31 DECEMBER 2005

The board of directors (the “Board”) of GFT Holdings Limited (the “Company”) is pleased to present the audited consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2005 as follows:—

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (As restated)
Revenue	3	179,128	165,291
Cost of sales		<u>(150,284)</u>	<u>(137,041)</u>
Gross profit		28,844	28,250
Other income		9,500	800
Distribution costs		(5,912)	(7,586)
Administrative expenses		(21,800)	(20,200)
Other expenses		(1,078)	(1,457)
Gain (loss) on disposal of subsidiaries		2,593	(894)
Loss on dilution of interests in subsidiaries		—	(496)
Finance costs		<u>(103)</u>	<u>(83)</u>
Profit (loss) before taxation		12,044	(1,666)
Income tax expense	4	<u>(873)</u>	<u>(1,786)</u>
Profit (loss) for the year	5	<u>11,171</u>	<u>(3,452)</u>
Attributable to			
— Equity holders of the Company		10,056	(6,169)
— Minority interests		<u>1,115</u>	<u>2,717</u>
		<u>11,171</u>	<u>(3,452)</u>
Earnings (loss) per share	6		
— Basic		<u>0.64 cent</u>	<u>(0.52 cent)</u>
— Diluted		<u>0.63 cent</u>	<u>N/A</u>

CONSOLIDATED BALANCE SHEET

At 31 December 2005

	<i>Notes</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (As restated)
NON-CURRENT ASSETS			
Property, plant and equipment		65,021	45,678
Deposits paid for acquisition of property, plant and equipment		—	4,330
Prepaid lease payments — non-current portion		8,698	5,533
Goodwill		5,733	7,717
Club debenture		220	—
		<hr/> 79,672 <hr/>	<hr/> 63,258 <hr/>
CURRENT ASSETS			
Prepaid lease payments — current portion		180	112
Inventories		8,767	2,721
Trade and other receivables	8	45,619	41,090
Investments in securities		—	5,474
Bank balances and cash		6,044	29,513
		<hr/> 60,610 <hr/>	<hr/> 78,910 <hr/>
CURRENT LIABILITIES			
Trade and other payables	9	29,604	29,628
Amounts due to related companies		13,420	13,148
Taxation payable		1,734	1,686
Unsecured other borrowing		1,750	—
Obligations under finance leases		1,656	—
Bank overdrafts		—	165
		<hr/> 48,164 <hr/>	<hr/> 44,627 <hr/>
NET CURRENT ASSETS			
		<hr/> 12,446 <hr/>	<hr/> 34,283 <hr/>
		<hr/> 92,118 <hr/>	<hr/> 97,541 <hr/>
CAPITAL AND RESERVES			
Share capital		15,785	15,285
Reserves		69,861	56,599
		<hr/> 85,646 <hr/>	<hr/> 71,884 <hr/>
Equity attributable to equity holders of the Company		85,646	71,884
Minority interests		1,546	5,685
		<hr/> 87,192 <hr/>	<hr/> 77,569 <hr/>

NON-CURRENT LIABILITIES

Construction cost payable	—	17,693
Unsecured other borrowing	1,312	—
Convertible notes	—	2,279
Obligations under finance leases	3,614	—
	<u>4,926</u>	<u>19,972</u>
	<u>92,118</u>	<u>97,541</u>

Notes:

1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants (“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 (the “Listing Rules”) and by the Hong Kong Companies Ordinance.

2. Application of Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (hereinafter collectively referred to as “new HKFRSs”) issued by the HKICPA that are effective for accounting periods beginning on or after 1 January 2005. The application of the new HKFRSs has resulted in a change in the presentation of the consolidated income statement, consolidated balance sheet and the consolidated statement of changes in equity. In particular, the presentation of minority interests has been changed. The changes in presentation have been applied retrospectively. The adoption of the new HKFRSs has also resulted in changes to the Group’s accounting policies that have effects on the results for the current and prior year as follows:—

	2005 <i>HK\$’000</i>	2004 <i>HK\$’000</i>
Non-amortisation of goodwill	627	—
Increase in effective interest expense on the liability component of convertible notes	(28)	(41)
Increase in profit (loss) for the year	<u>599</u>	<u>(41)</u>

Analysis of increase in profit (loss) for the year by line items presented according to their functions:

	2005 HK\$'000	2004 HK\$'000
Decrease in other expenses	627	—
Increase in finance costs	(28)	(41)
	<u>599</u>	<u>(41)</u>

The cumulative effects of the application of the new HKFRSs as at 31 December 2004 and 1 January 2005 are summarised below:

	As at 31 December 2004 (originally stated) <i>HK\$'000</i>	Adjustments <i>HK\$'000</i>	As at 31 December 2004 (as restated) <i>HK\$'000</i>	Adjustment <i>HK\$'000</i>	As at 1 January 2005 (as restated) <i>HK\$'000</i>
Property, plant and equipment	51,323	(5,645)	45,678	—	45,678
Prepaid lease payments	—	5,645	5,645	—	5,645
Investments in securities	5,474	—	5,474	(5,474)	—
Investments held for trading	—	—	—	5,474	5,474
Convertible notes	(2,500)	221	(2,279)	—	(2,279)
	<u>54,297</u>	<u>221</u>	<u>54,518</u>	<u>—</u>	<u>54,518</u>
Total effects on assets and liabilities					
Accumulated profits	21,155	(41)	21,114	—	21,114
Convertible notes equity reserve	—	262	262	—	262
	<u>21,155</u>	<u>221</u>	<u>21,376</u>	<u>—</u>	<u>21,376</u>
Total effects on equity					

3. Segment Information

Business segments

The Group is currently organised into three major operating divisions — toy products trading and manufacturing, consumer products trading and manufacturing and securities trading and investments. These divisions are the basis on which the Group reports its primary segment information.

An analysis of the Group's turnover, operating results, assets and liabilities by business segment is presented below:

For the year ended 31 December 2005

	Toy products trading and manufacturing <i>HK\$'000</i>	Consumer products trading and manufacturing <i>HK\$'000</i>	Securities trading and investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
REVENUE	<u>157,473</u>	<u>13,318</u>	<u>8,337</u>	<u>179,128</u>
RESULT				
Segment result	<u>13,941</u>	<u>(2,625)</u>	<u>2,785</u>	14,101
Other income				2,042
Unallocated corporate expenses				(6,589)
Gain on disposal of subsidiaries				2,593
Finance costs				<u>(103)</u>
				12,044
Income tax expense				<u>(873)</u>
Profit for the year				<u>11,171</u>
ASSETS				
Segment assets	132,793	3,318	67	136,178
Unallocated corporate assets				<u>4,104</u>
Consolidated total assets				<u>140,282</u>
LIABILITIES				
Segment liabilities	48,624	3,040	—	51,664
Unallocated corporate liabilities				<u>1,426</u>
Consolidated total liabilities				<u>53,090</u>

For the year ended 31 December 2004

	Toy products trading and manufacturing <i>HK\$'000</i>	Consumer products trading and manufacturing <i>HK\$'000</i>	Securities trading and investments <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> (As restated)
REVENUE	<u>113,629</u>	<u>40,679</u>	<u>10,983</u>	<u>165,291</u>
RESULT				
Segment result	<u>10,769</u>	<u>(1,286)</u>	<u>(1,670)</u>	7,813
Other income				344
Unallocated corporate expenses				(8,350)
Loss on disposal of subsidiaries				(894)
Loss on dilution of interests in subsidiaries				(496)
Finance costs				<u>(83)</u>
Loss before taxation				(1,666)
Income tax expense				<u>(1,786)</u>
Loss for the year				<u>(3,452)</u>
ASSETS				
Segment assets	113,380	10,819	9,840	134,039
Unallocated corporate assets				<u>8,129</u>
Consolidated total assets				<u>142,168</u>
LIABILITIES				
Segment liabilities	52,550	8,737	10	61,297
Unallocated corporate liabilities				<u>3,302</u>
Consolidated total liabilities				<u>64,599</u>

Geographical segments

The following table provides an analysis of the Group's sales by geographical market, irrespective of the origin of the goods/services:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Japan	72,012	89,186
Hong Kong	39,758	21,754
The Peoples' Republic of China, other than Hong Kong (the "PRC")	40,824	16,098
Europe	17,423	18,914
United States of America	6,839	1,466
Singapore	1,268	16,854
Others	1,004	1,019
	<u>179,128</u>	<u>165,291</u>

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
PRC	103,977	64,840	22,217	50,433
United States of America	2,466	291	—	1,933
Hong Kong	25,473	50,763	131	8,984
Other Asian countries	7,776	25,182	—	—
Europe	590	1,092	—	—
	<u>140,282</u>	<u>142,168</u>	<u>22,348</u>	<u>61,350</u>

4. Income Tax Expense

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Current tax:		
Hong Kong	662	1,786
PRC	216	—
Overprovision in prior years		
Hong Kong	(5)	—
	<u>873</u>	<u>1,786</u>

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the year.

Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions. Pursuant to the relevant laws and regulations in the PRC, the Group's PRC subsidiaries are exempted from PRC income tax for two years starting from their first profit-making year, followed by a 50% reduction for the next three years. No provision for PRC income tax has been made in the financial statements as all the PRC subsidiaries were exempted from PRC income tax during the year.

The PRC income tax provided for in 2005 is calculated at 27% of the estimated deemed profit derived from a non-PRC subsidiary for the year.

5. Profit (Loss) For The Year

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (As restated)
Profit (loss) for the year has been arrived at after charging (crediting):		
Directors' remuneration	2,009	2,887
Other staff costs	18,180	7,043
	<hr/>	<hr/>
Total staff costs	20,189	9,930
	<hr/>	<hr/>
Depreciation and amortisation		
Property, plant and equipment	3,929	1,128
Goodwill (charged to other expenses)	—	696
Intangible asset (charged to other expenses)	—	16
	<hr/>	<hr/>
	3,929	1,840
	<hr/>	<hr/>
Release of prepaid lease payments	179	—
Auditors' remuneration	1,090	600
Allowance for slowing moving and obsolete inventories	—	619
Impairment loss recognised in respect of trade and other receivables	20	409
Unrealised holding loss on other investments (charged to other expenses)	—	585
Exchange loss	169	—
Impairment loss on goodwill	909	—
Loss on disposal of property, plant and equipment	12	152
Cost of inventories recognised as expense	138,487	135,501
	<hr/>	<hr/>
and after crediting:		
Bank interest income	45	12
Dividend income from investments in listed securities	—	129
Gain on disposal of investments held for trading	2,863	—
Exchange gain	—	103
	<hr/> <hr/>	<hr/> <hr/>

Included in total staff costs is an aggregate amount of approximately HK\$1,053,000 (2004: HK\$245,000), in respect of retirement benefit schemes contributions paid or payable.

6. Earnings (Loss) Per Share

The calculation of the basic and diluted earnings (loss) per share attributable to the equity holders of the Company is based on the following data:

Earnings

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i> (as restated)
Profit (loss) for the year attributable to equity holders of the Company for the purposes of basic earnings (loss) per share	10,056	<u><u>(6,169)</u></u>
Effect of dilutive potential ordinary shares: Interest on convertible notes	<u>41</u>	
Earnings for the purposes of diluted earnings per share	<u><u>10,097</u></u>	

Number of shares

	2005 Number of shares <i>'000</i>	2004 Number of shares <i>'000</i>
Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share	1,570,184	<u><u>1,191,019</u></u>
Effect of dilutive potential ordinary shares in respect of share options	29,212	
Effect of dilutive potential ordinary shares in respect of convertible notes	<u>8,356</u>	
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u><u>1,607,752</u></u>	

No diluted loss per share has been presented for the year ended 31 December 2004 as the exercise of the share options of the Company and the conversion of the Company's outstanding convertible notes would result in a decrease on loss per share.

7. Dividend

The Board does not recommend payment of final dividend for the year ended 31 December 2005 (2004: nil).

8. Trade and Other Receivables

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Trade receivables	35,384	23,305
Other receivables	10,235	17,785
	<u>45,619</u>	<u>41,090</u>

The Group allows an average credit period ranging from 30 days to 90 days to its trade customers. The following is an aged analysis of trade receivables at the reporting date:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0 to 60 days	19,345	15,956
61 to 90 days	5,031	4,388
Over 90 days	11,008	2,961
	<u>35,384</u>	<u>23,305</u>

The fair values of the amounts as at 31 December 2005 approximate their carrying amounts.

9. Trade and Other Payables

Included in trade and other payables are trade payables of HK\$17,617,000 (2004: HK\$18,339,000), and the aged analysis is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
0 to 60 days	6,566	12,123
61 to 90 days	5,694	2,749
Over 90 days	5,357	3,467
	<u>17,617</u>	<u>18,339</u>

The fair values of the amounts as at 31 December 2005 approximate their carrying amounts.

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

In the year under review, trading and manufacturing of toy, gift and premium products remained the primary contributor to the Group's turnover, accounting for 87.9% of the consolidated turnover. In the midst of severe price competition, fluctuating material cost, shortage of labour, appreciation of Renminbi, 2005 is definitely a challenging year for toy manufacturers in mainland China. Nevertheless, the Group managed to record a turnover for its toy business of HK\$157.5 million, representing a substantial increase of HK\$43.8 million, or approximately 38.6% when compared with last year. Furthermore, the segment result raised by 28.7% from HK\$10.8 million in year 2004 to HK\$13.9 million in year 2005.

Such an impressive performance is mainly attributable to the full operation of the Group's own manufacturing plant in Boluo, Huizhou. This well-equipped plant enhances the Group capacity and provides a secured foothold to meet the escalating demand from customers in quality, quantity and delivery that may not be fulfilled by outside contractors.

Consumer products business came as the second largest segment of the Company. Turnover generated in year 2005 was HK\$13.3 million and accounted for around 7.4% of the Group's total turnover. Compared with last year, turnover in consumer products segment dropped by HK\$27.4 million or 67.3% which was resulted from the disposal of the non-core food and beverage business in Singapore last year and the under-performed printing products business this year.

Similarly, weighting in securities trading decreased in this year even though the performance in this segment was benefited from the booming securities market. The Group recorded turnover of HK\$8.3 million and contribution of HK\$2.8 million from securities trading. However, as the Board has determined to focus its resources on the core toy business, weighting on consumer products and securities trading will continuously be diminished.

Operation Review

Following the completion of the transfer of a piece of land and building erected thereon in March 2005, the Group smoothly consolidated its production facilities in Boluo, Huizhou. Commencement of full operation of this Great Force plant during the year also marked a new era of the Group as it was successfully transformed from a toy trading group into a toy manufacturer.

Great Force plant is erected on a parcel of self-owned land with site area of approximately 57,000 square meters and floor area of approximately 53,000 square meters. The plant is well-equipped with modernized and fully-integrated facilities for plastic injection, spray painting, assembly, packaging and warehousing. Geared with this plant, the production arrangement, shipping schedule and quality of workmanship are more controllable which enhance our confidence in meeting the unparalleled customers' demand. The Group keeps on refining the production process and upgrading the facilities so as to uplift the efficiency and production capacity.

Prospects

The directors anticipate that coming years will not be easier for toy manufacturers in China. Certain adverse factors that hamper profit margin will persist. Nevertheless, the Group are prepared to sail through the adversity by taking all necessary and cautious measures, including exercising stringent cost control, developing innovative products with higher margin and adding more value-added elements to our products so as to maintain our margin and market position.

Looking forward, the Group will more concentrate on developing the core business, the trading and manufacturing of toys, gift and premium business. Expanding its manufacturing base, further upgrading the efficiency and putting more effort in research and development for innovative products are the key tasks to be accomplished. Furthermore, development of products with high profit margin, such as its own brand name and toys or figures that come along with current comics or films, is one of our focal strategies to avoid the severe competition in the OEM markets.

Financial Review

Review of Results

The Group reported a turnover of approximately HK\$179.1 million for the year ended 31 December 2005, representing an increase of HK\$13.8 million or 8.4% over that of last year. The increase in turnover is mainly attributable to the operation of the Group's own manufacturing plant in Boluo, Huizhou which increases the capacity of the Group. The Group generated a gross profit of HK\$28.8 million, an increase of HK\$0.6 million when compared with last year.

Profits attributable to the equity holders of the Company is HK\$10.1 million, an impressive rebound from loss of HK\$6.2 million suffered last year. Basic earnings per share for the year ended 31 December 2005 is HK0.64 cent.

Liquidity and Financial Resources

As at 31 December 2005, total borrowings of the Group amounted to HK\$8.3 million (2004: nil), of which HK\$3.4 million was repayable within one year. The borrowings include an unsecured loan of HK\$3.0 million and obligations under finance lease of HK\$5.3 million secured by charge on certain plant and machinery of the Group with a net asset value of HK\$6.0 million as at 31 December 2005.

The gearing ratio, expressed as the percentage of total liability over equity attributable to the equity holders of the Company, of the Group as at 31 December 2005 dropped to 62.0% (2004: 89.9%) due to the exercise of the conversion right of the convertible notes and the partial repayment of certain non-current liabilities.

Capital Structure

During the year, the conversion rights of the convertible notes in an aggregate amount of HK\$2.5 million were fully exercised by the holders. Consequently, a total of 50 million new shares in the capital of the Company were issued and allotted and each of Mr. Leung Wai Ho (the chairman of the Company) and Mr. Wong Chung Shun (the deputy chairman of the Company) was allotted 22.5 million new shares. As at 31 December 2005 there is no outstanding convertible notes and other similar rights other than the share options granted under the share option scheme of the Company.

Exposure to Exchange Rates

Most of the Group's business transactions, assets and liabilities are denominated in Hong Kong dollars, United States dollars and Renminbi. As Hong Kong dollars is pegged to United States dollars and the fluctuation in the exchange rate between Hong Kong dollars and Renminbi is relatively mild, the Group's exposure to foreign currency risk is minimal and thus has not undertaken any hedging activity during the year under review.

Contingent Liabilities

The Group has no material contingent liabilities save that a writ of summons dated 8 October 2004 was filed by Mr. Kwok Chin Wing, a former director of the Company, against the Company in respect of the loans due from two former subsidiaries of the Company for a sum of approximately HK\$44.5 million together with related interests. The Company had already completed discovery of documentary evidence and exchange of witness statement and is ready to set the litigation down for trial. The directors of the Company, after seeking legal advices, are of the opinion that the plaintiff does not have a valid claim against the Company and therefore it is unlikely to have material adverse financial impact on the Group.

EMPLOYEES

As at 31 December 2005, the Group had approximately 1,050 employees (2004: 98) in Hong Kong and the PRC. The considerable increase in workforce was mainly due to the full operation of the Group's manufacturing plant in Boluo, Huizhou, Guangdong in 2005.

To attract, retain and motivate its employees, the Group has developed effective remuneration policies that are subject to review on regular basis. The Group's employees are remunerated with competitive packages which are in line with prevailing industry practice and individual performance. Furthermore, share option and performance-based bonus scheme are also in place to recognize the outstanding employees.

OTHER INFORMATION

Purchase, Sale or Redemption of the Company's Listed Securities

During the year, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

Corporate Governance

The Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "CG Code") contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2005 except for the deviation from A.4.1 of the CG Code that none of the existing non-executive directors of the Company is appointed for specific term. However, as the directors are subject to the retirement by rotation provisions under the bye-laws of the Company, the Company considers that sufficient measures have been in place to ensure that the Company's corporate governance practices are no less exacting than the CG Code.

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as its own code of conduct regarding the directors' securities transaction. Having made specific enquiry, all directors confirmed that they fully complied with the Model Code throughout the year.

Review of the Results

The audited consolidated results for the year ended 31 December 2005 of the Group has been reviewed by the audit committee of the Company.

By Order of the Board
GFT Holdings Limited
Leung Wai Ho
Chairman

Hong Kong, 24 April 2006

As at the date of this announcement, the Board comprises Mr. Leung Wai Ho, Mr. Wong Chung Shun and Mr. Ha Kee Choy, Eugene as executive directors and Mr. Chui Chi Yun, Robert, Mr. Lam Kwok Cheong and Mr. Lai Wing Leung, Peter as independent non-executive directors.

* *for identification purpose only*