



# GFT HOLDINGS LIMITED

## 真樂發控股有限公司\*

(incorporated in Bermuda with limited liability)

(stock code: 1003)

### INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2006

The board of directors (the “Board”) of GFT Holdings Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2006 as follows:

#### CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2006

		Six months ended 30 June	
		2006	2005
		HK\$'000	HK\$'000
	Notes	(unaudited)	(unaudited)
Revenue	3	55,356	61,339
Cost of sales		<u>(51,447)</u>	<u>(46,010)</u>
Gross profit		3,909	15,329
Other income		522	247
Distribution costs		(2,513)	(3,021)
Administrative expenses		(11,648)	(9,234)
Gain on disposal of subsidiaries		355	—
Finance costs		<u>(394)</u>	<u>(41)</u>
(Loss) profit before taxation		(9,769)	3,280
Income tax expense	4	<u>—</u>	<u>(275)</u>
(Loss) profit for the period	5	<u><u>(9,769)</u></u>	<u><u>3,005</u></u>
Attributable to			
— Equity holders of the Company		(9,512)	2,802
— Minority interests		<u>(257)</u>	<u>203</u>
		<u><u>(9,769)</u></u>	<u><u>3,005</u></u>
(Loss) earnings per share			
— Basic	7	<u><u>(0.60) cent</u></u>	<u><u>0.18 cent</u></u>
— Diluted	7	<u><u>N/A</u></u>	<u><u>0.18 cent</u></u>

**CONDENSED CONSOLIDATED BALANCE SHEET**

At 30 June 2006

		<b>30 June 2006</b>	31 December 2005
		<i>HK\$'000</i>	<i>HK\$'000</i>
	<i>Notes</i>	<i>(unaudited)</i>	<i>(audited)</i>
<b>Non-current Assets</b>			
Property, plant and equipment		64,243	65,021
Prepaid lease payments — non-current portion		8,552	8,698
Goodwill		5,733	5,733
Club debenture		220	220
		<u>78,748</u>	<u>79,672</u>
<b>Current Assets</b>			
Prepaid lease payments — current portion		188	180
Inventories		17,874	8,767
Trade and other receivables	8	27,754	45,619
Taxation recoverable		1,057	—
Bank balances and cash		10,794	6,044
		<u>57,667</u>	<u>60,610</u>
<b>Current Liabilities</b>			
Trade and other payables	9	29,360	29,604
Amounts due to related companies		13,709	13,420
Taxation payable		320	1,734
Borrowings		11,365	1,750
Obligations under finance leases		1,735	1,656
		<u>56,489</u>	<u>48,164</u>
<b>Net Current Assets</b>		<u>1,178</u>	<u>12,446</u>
<b>Total Assets less Current Liabilities</b>		<u><u>79,926</u></u>	<u><u>92,118</u></u>
<b>Capital and Reserves</b>			
Share capital		15,785	15,785
Reserves		59,995	69,861
Equity attributable to equity holders of the Company		<u>75,780</u>	<u>85,646</u>
Minority interests		1,128	1,546
		<u>76,908</u>	<u>87,192</u>
<b>Non-current Liabilities</b>			
Borrowings		292	1,312
Obligations under finance leases		2,726	3,614
		<u>3,018</u>	<u>4,926</u>
		<u><u>79,926</u></u>	<u><u>92,118</u></u>

Notes:

### 1. BASIS OF PREPARATION

The condensed 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 and with Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

The accounting policies used in the condensed financial statements are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2005.

### 3. SEGMENT INFORMATION

The Group’s primary format for reporting segment information is business segments.

#### For the six months ended 30 June 2006

	<b>Toy products trading and manufacturing</b>	<b>Consumer products trading and manufacturing</b>	<b>Securities trading and investments</b>	<b>Consolidated</b>
	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>	<i>HK\$’000</i>
Revenue	<u>52,809</u>	<u>2,547</u>	<u>—</u>	<u>55,356</u>
Segment result	<u>(6,801)</u>	<u>(423)</u>	<u>—</u>	(7,224)
Other income				52
Unallocated corporate expenses				(2,924)
Gain on disposal of subsidiaries				355
Finance costs				<u>(28)</u>
Loss before taxation				(9,769)
Income tax expense				<u>—</u>
Loss for the period				<u>(9,769)</u>

**For the six months ended 30 June 2005**

	<b>Toy products trading and manufacturing</b>	<b>Consumer products trading and manufacturing</b>	<b>Securities trading and investments</b>	<b>Consolidated</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	<u>50,606</u>	<u>2,397</u>	<u>8,336</u>	<u>61,339</u>
Segment result	<u>3,725</u>	<u>(460)</u>	<u>2,862</u>	6,127
Other income				247
Unallocated corporate expenses				(3,053)
Finance costs				<u>(41)</u>
Profit before taxation				3,280
Income tax expense				<u>(275)</u>
Profit for the period				<u>3,005</u>

**4. INCOME TAX EXPENSE**

No provision for Hong Kong Profits Tax or tax in other jurisdictions has been made for the current period as neither the Company nor any of its subsidiaries had any assessable profit subject to tax for the six months ended 30 June 2006.

Income tax expense for the six months ended 30 June 2005 represented Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit.

No provision for deferred taxation has been recognized in the financial statements as the amount involved is insignificant.

**5. (LOSS) PROFIT FOR THE PERIOD**

	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>

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

Depreciation of property, plant and equipment	<b>2,649</b>	1,504
Release of prepaid lease payments	<b>94</b>	75
Interest on borrowings	<b>181</b>	—
Interest on finance leases	<b>213</b>	—
Interest on convertible notes	<b>—</b>	41
Interest income	<u><b>(20)</b></u>	<u>(71)</u>

## 6. DIVIDENDS

No dividends were paid during the period. The directors do not recommend the payment of an interim dividend.

## 7. (LOSS) EARNINGS PER SHARE

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

### (Loss) earnings

	Six months ended 30 June	
	2006 HK\$'000	2005 HK\$'000
(Loss) profits for the period attributable to equity holders of the Company for the purposes of basic (loss) earnings per share	<u>(9,512)</u>	2,802
Effect of dilutive potential ordinary shares:		
Interest on convertible notes		<u>41</u>
Earnings for the purposes of diluted earnings per share		<u>2,843</u>

### Number of shares

	Six months ended 30 June	
	2006 Number of shares '000	2005 Number of shares '000
Weighted average number of ordinary shares for the purposes of basic (loss) earnings per share	<u>1,578,540</u>	1,561,689
Effect of dilutive potential ordinary shares in respect of share options		2,509
Effect of dilutive potential ordinary shares in respect of convertible notes		<u>16,851</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share		<u>1,581,049</u>

No diluted loss per share for the six months ended 30 June 2006 has been presented as the exercise of share options would result in a decrease on loss per share.

## 8. TRADE AND OTHER RECEIVABLES

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 receivable at the balance sheet date:

	<b>30 June 2006</b> <i>HK\$'000</i>	31 December 2005 <i>HK\$'000</i>
0 to 60 days	<b>9,226</b>	19,345
61 to 90 days	<b>1,604</b>	5,031
over 90 days	<b>7,974</b>	11,008
	<hr/> <b>18,804</b> <hr/>	<hr/> <b>35,384</b> <hr/>

## 9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the balance sheet date:

	<b>30 June 2006</b> <i>HK\$'000</i>	31 December 2005 <i>HK\$'000</i>
0 to 60 days	<b>9,518</b>	6,566
61 to 90 days	<b>3,215</b>	5,694
over 90 days	<b>6,362</b>	5,357
	<hr/> <b>19,095</b> <hr/>	<hr/> <b>17,617</b> <hr/>

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business and Operation Review

Toy products trading and manufacturing remains as the core business of the Group and recorded a revenue of HK\$52.8 million during the review period, representing a slight increase of 4.3% when compared with last corresponding period. Adhering to the Group's business strategy of focusing on toy business, revenue generated by other segments during the review period is HK\$2.5 million only, contributing less than 5.0% of the consolidated revenue.

The Group continues to consolidate and streamline the operations in its self-owned flagship manufacturing plant in Boluo, Huizhou so as to enhance productivity. After having its own production plant, efficiency is uplifted by more controllable delivery schedule, workflow and products quality when compared with leaning upon outside sub-contractors. However, the betterment is curtailed by the intensified price competition, soaring material and operation cost, unstable utilities supplies and labour shortage in Mainland China. The management is exercising stringent cost control, exploring new products and markets and taking other cautious measures to combat the downturn.

Among the various means to preserve the Group's competitiveness is to divest non-performing business. During the period, the Group disposed of its entire interests in a non-wholly owned subsidiary, Thunder Force Limited, which is engaged in the trading and manufacturing of electronic components and has been suffered from loss over the past years.

## **Prospects**

Because of the seasonal factors of toy industry, sales in the second half of the year will generally be greater. Nevertheless, as the unfavourable factors are still hovering, the remaining year is expected to be challenging. Apart from further tightening the cost and expenses of its core operations, the management is actively searching for business and enterprises in toy-related business with good potential and in lucrative niche with a view to secure growth in scales, profitability and returns to the shareholders.

## **FINANCIAL REVIEW**

### **Review of Results**

The Group reported revenue of approximately HK\$55.4 million for the six months ended 30 June 2006, representing a decrease of HK\$6.0 million or 9.8% when compared with that of last corresponding period. The decline in revenue was mainly attributable to the inactiveness of securities trading and investments business during the review period, which generated revenue of HK\$8.3 million in last corresponding period.

Gross profit dropped by HK\$11.4 million from HK\$15.3 million to HK\$3.9 million when compared with last corresponding period. The substantial decrease in gross profit was partly due to non-contributing securities trading which recorded gross profit of HK\$2.9 million during the same period in last year. Whilst, certain unfavourable factors impacting the toy business, including severe price competition, escalating material cost, wages and other direct production cost, were the greater reasons. The low level of gross profit was insufficient to cover the expense and as a consequence the Group suffered from loss attributable to equity holders of HK\$9.5 million in the current period.

### **Liquidity and Financial Resources**

At 30 June 2006, total borrowings of the Group amounted to HK\$16.1 million (31 December 2005: HK\$8.3 million), of which HK\$13.1 million (31 December 2005: 3.4 million) was repayable within one year. The borrowings included an unsecured loan of HK\$2.0 million (31 December 2005: HK\$3.0 million), obligations under finance leases of HK\$4.5 million (31 December 2005: HK\$5.3 million) and secured bank loan of HK\$9.6 million (31 December 2005: nil).

The gearing ratio, expressed as the percentage of total liability over equity attributable to the equity holders of the Company, of the Group at 30 June 2006 was 78.5% (31 December 2005: 62.0%). The increase was due to, on one hand, the new secured bank loan in HK\$9.6 million obtained to finance the working capital of the Group and, on the other hand, the reduction in equity resulted from the loss incurred by the Group during the review period.

### **Charges on Assets**

At 30 June 2006, certain property, plant and equipment and land use right amounted to HK\$31.4 million (31 December 2005: HK\$6.0 million) were pledged to banks for loans and finance leases granted to the Group.

## **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 period 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 "Action").

The parties to the Action had completed discovery of all documentary evidence and also exchanged witness statements as to facts. In July 2006, Mr. Kwok applied for substantial amendments to his Re-Re-Amended Statement of Claim for joinder of party and joinder of causes of action against the former director and chairman of the Company, Mr. Chan Sheung Wai. It is opinion of Counsel and Senior Counsel acting for the Company that such amendments would only delay the fair trial of the Action without improving the Plaintiff's case and the Company is going to resist such amendment application by Mr. Kwok and proceed with the trial of the Action as soon as possible. Having reviewed all the evidence disclosed in the Action and with the benefit of the advice of Solicitors, Counsel and Senior Counsel acting for the Company, the directors of the Company formed the opinion that Mr. Kwok does not have a valid claim against the Company notwithstanding the outcome of the amendment application and therefore it is unlikely to have any material adverse financial impact on the Group.

## **Employees**

As at 30 June 2006, the Group had approximately 2,200 employees (30 June 2005: 2,100) in Hong Kong and the PRC.

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**

### **Interim Dividend**

The Board does not recommend payment of interim dividend for the six months ended 30 June 2006 (30 June 2005: Nil).

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

During the six months ended 30 June 2006, 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 provision set out in the Code on Corporate Governance Practices (the “CG Code”) contained in Appendix 14 of the Listing Rules throughout the six months ended 30 June 2006 except for the deviation from A.4.1 of the CG Code that none of the existing non-executive directors 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 securities transaction by the directors. Having made specific enquiry, all directors confirmed that they fully complied with the Model Code throughout the review period.

## **Review of Interim Results**

The unaudited condensed interim results for the six months ended 30 June 2006 of the Group has been reviewed by the audit committee of the Company.

By Order of the Board  
**Leung Wai Ho**  
*Chariman*

Hong Kong, 22 September 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*