真樂發控股有限公司 GFT Holdings Limited

# Interim Report 中期報告 2005

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 2005 as follows:

## CONDENSED CONSOLIDATED INCOME STATEMENT

*For the six months ended 30 June 2005*

| | Notes | Six months ended 30 June<br>**2005**<br>***HK$'000***<br>***(unaudited)*** | <br>2004<br>*HK$'000*<br>*(unaudited)* |
|---|---|---|---|
| Turnover | *4* | **61,339** | 69,615 |
| Cost of sales | | **(46,010)** | (60,161) |
| Gross profit | | **15,329** | 9,454 |
| Other operating income | | **247** | 408 |
| Distribution costs | | **(3,021)** | (490) |
| Administration expenses | | **(9,234)** | (11,412) |
| Other operating expenses | | **—** | (522) |
| Finance costs | | **(41)** | (6) |
| Loss on disposal of subsidiaries | | **—** | (894) |
| Loss on dilution of interests in subsidiaries | | **—** | (496) |
| Profit (loss) before taxation | *5* | **3,280** | (3,958) |
| Income tax expense | *6* | **(275)** | (464) |
| Profit (loss) for the period | | **3,005** | (4,422) |
| Attributable to | | | |
| — Equity holders of the Company | | **2,802** | (5,374) |
| — Minority interests | | **203** | 952 |
| | | **3,005** | (4,422) |
| Earnings (loss) per share | | | |
| — Basic | *8* | **0.18 cent** | (0.51) cent |
| — Diluted | *8* | **0.18 cent** | N/A |

# CONDENSED CONSOLIDATED BALANCE SHEET

*At 30 June 2005*

| | Notes | **30 June 2005 HK$'000 (unaudited)** | 31 December 2004 HK$'000 (audited and restated) |
|---|---|---|---|
| Non-Current Assets | | | |
| Property, plant and equipment | 9 | **45,515** | 45,678 |
| Deposit for acquisition of property, plant and equipment | | **—** | 4,330 |
| Prepaid lease payments for land — non-current portion | | **14,582** | 5,533 |
| Goodwill | | **7,717** | 7,717 |
| | | **67,814** | 63,258 |
| Current Assets | | | |
| Prepaid lease payments for land — current portion | | **298** | 112 |
| Inventories | | **7,394** | 2,721 |
| Trade and other receivables | 10 | **32,982** | 41,090 |
| Investments in securities | | **—** | 5,474 |
| Bank balances and cash | | **10,410** | 29,513 |
| | | **51,084** | 78,910 |
| Current Liabilities | | | |
| Trade and other payables | 11 | **29,959** | 29,628 |
| Amounts due to related companies | | **8,213** | 13,148 |
| Tax payables | | **1,137** | 1,686 |
| Bank overdraft | | **—** | 165 |
| | | **39,309** | 44,627 |
| Net Current Assets | | **11,775** | 34,283 |
| Total Assets less Current Liabilities | | **79,589** | 97,541 |
| Capital and Reserves | | | |
| Share capital | 12 | **15,785** | 15,285 |
| Reserves | | **61,208** | 56,599 |
| Equity attributable to equity holders of the Company | | **76,993** | 71,884 |
| Minority interests | | **2,596** | 5,685 |
| Total Equity | | **79,589** | 77,569 |
| Non-Current Liabilities | | | |
| Construction cost payables | 13 | **—** | 17,693 |
| Convertible notes | 14 | **—** | 2,279 |
| | | **—** | 19,972 |
| | | **79,589** | 97,541 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*For the six months ended 30 June 2005*

| | Attributable to equity holders of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital reserves HK$'000 | Other reserves HK$'000 | Translation reserve HK$'000 | Accumulated profits HK$'000 | Total HK$'000 | Minority interests HK$'000 | Total equity HK$'000 |
| At 1 January 2004 | 7,124 | — | 2,099 | — | 17 | 27,283 | 36,523 | 730 | 37,253 |
| Exchange difference arising on translation of overseas operations recognised directly in equity | — | — | — | — | (38) | — | (38) | — | (38) |
| Loss for the period | — | — | — | — | — | (5,374) | (5,374) | 952 | (4,422) |
| Released on disposal of subsidiaries | — | — | — | — | (17) | — | (17) | (690) | (707) |
| Total recognised income and expenses for the period | — | — | — | — | (55) | (5,374) | (5,429) | 262 | (5,167) |
| Placing of new shares | 1,400 | 5,600 | — | — | — | — | 7,000 | — | 7,000 |
| Rights issue | 4,261 | 17,048 | — | — | — | — | 21,309 | — | 21,309 |
| Contribution from minority shareholders | — | — | — | — | — | — | — | 2,000 | 2,000 |
| Acquired on acquisition of subsidiaries | — | — | — | — | — | — | — | 1,356 | 1,356 |
| At 30 June 2004 | 12,785 | 22,648 | 2,099 | — | (38) | 21,909 | 59,403 | 4,348 | 63,751 |
| Exchange difference arising on translation of overseas operations recognised directly in equity | — | — | — | — | 63 | — | 63 | — | 63 |
| Profit for the period | — | — | — | — | — | (795) | (795) | 1,337 | 542 |
| Released on disposal of subsidiaries | — | — | — | — | (25) | — | (25) | — | (25) |
| Total recognised income and expenses for the period | — | — | — | — | 38 | (795) | (757) | 1,337 | 580 |
| Recognition of equity component of convertible notes | — | — | — | 262 | — | — | 262 | — | 262 |
| Placing of new shares | 2,500 | 12,000 | — | — | — | — | 14,500 | — | 14,500 |
| Share issue expenses | — | (1,524) | — | — | — | — | (1,524) | — | (1,524) |
| At 31 December 2004 — as restated | 15,285 | 33,124 | 2,099 | 262 | — | 21,114 | 71,884 | 5,685 | 77,569 |
| Profit for the period | — | — | — | — | — | 2,802 | 2,802 | 203 | 3,005 |
| Dividend paid to minority shareholders | — | — | — | — | — | — | — | (3,292) | (3,292) |
| Shares issued at premium | 500 | 2,069 | — | (262) | — | — | 2,307 | — | 2,307 |
| At 30 June 2005 | 15,785 | 35,193 | 2,099 | — | — | 23,916 | 76,993 | 2,596 | 79,589 |

The capital reserves represent the difference between the nominal value of the share capital issued by the Company in exchange for the aggregate of the nominal value of the issued share capital of Rockapetta Investment Limited, the former subsidiary which was acquired by the Company pursuant to a group reorganization to rationalize the group structure in preparation for the listing of the Company's shares on the Stock Exchange of Hong Kong Limited.

## CONDENSED CONSOLIDATED CASH FLOW STATEMENT

*For the six months ended 30 June 2005*

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| | ***(unaudited)*** | *(unaudited)* |
| Net cash used in operating activities | **(1,290)** | (312) |
| Net cash used in investing activities | | |
| Cash paid for the acquisition of property, plant and equipment | **(13,399)** | (10,281) |
| Prepaid lease payment for land | **(9,310)** | (9,329) |
| Acquisition of subsidiaries | **—** | (9,363) |
| Proceeds on disposal of subsidiaries | **—** | 5,137 |
| Other investing cash flows | **17** | (2,944) |
| Proceeds on disposal of investments held for trading | **8,336** | — |
| | **(14,356)** | (26,780) |
| Net cash (used in) from financing activities | | |
| Dividends paid to minority shareholders | **(3,292)** | — |
| Proceeds from rights issue | **—** | 21,309 |
| Proceeds from placing of new shares | **—** | 7,000 |
| Contribution from minority shareholders | **—** | 2,000 |
| | **(3,292)** | 30,309 |
| Net (decrease) increase in cash and cash equivalents | **(18,938)** | 3,217 |
| Cash and cash equivalents at beginning of the period | **29,348** | 18,946 |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | **10,410** | 22,163 |

# NOTES TO THE CONDENSED FINANCIAL STATEMENTS

## 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 (the "HKICPA").

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed financial statements have been prepared on the historical cost basis except for 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 2004 except as described below.

In the current period, the Group has applied, for the first time, a number of new Hong Kong Financial Reporting Standards (HKFRSs), Hong Kong Accounting Standards (HKASs) 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 income statement, balance sheet and the 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 in the following areas that have an effect on how the results for the current or prior accounting periods are prepared and presented:

### A. Share-based payments

HKFRS 2 "Share-based Payment" requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"), or in exchange for other assets equivalent in value to a given number of shares or rights over shares ("cash-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of directors' and employees' share options of the Company determined at the date of grant of the share options over the vesting period. Prior to the application of HKFRS 2, the Group did not recognise the financial effect of share options until they were exercised. The Group has applied HKFRS 2 to share options (if any) granted on or after 1 January 2005. In relation to share options granted before 1 January 2005, the Group has not applied HKFRS 2 to share options granted on or before 7 November 2002 and share options that were granted after 7 November 2002 and had vested before 1 January 2005 in accordance with the relevant transitional provisions. No share option has been granted during current period. The adoption of HKFRS 2 has had no material effect on the results for the current or prior accounting period. Accordingly, no prior period adjustment has been made.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### B. Business combinations

In the current period, the Group has applied HKFRS 3 "Business Combinations" which is effective for business combinations for which the agreement date is on or after 1 January 2005. The principal effects of the application of HKFRS 3 to the Group are in relation to goodwill. In previous periods, goodwill arising on acquisitions after 1 January 2001 was capitalised and amortised over its estimated useful life. The Group has applied the relevant transitional provisions in HKFRS 3. With respect to goodwill previously capitalised on the balance sheet, the Group has discontinued amortising such goodwill from 1 January 2005. onwards and goodwill is subject to the test for impairment at least annually, or in the financial year in which the acquisition takes place. Goodwill arising on acquisitions after 1 January 2005 is measured at cost less accumulated impairment losses (if any) after initial recognition. As a result of this change in accounting policy, no amortisation of goodwill was charged in the current period. Comparative figures for 2004 have not been restated.

### C. Financial instruments

HKAS 32 "Financial Instruments: Disclosure and Presentation" requires retrospective application. HKAS 39 "Financial Instruments: Recognition and Measurement", which is effective for annual periods beginning on or after 1 January 2005, generally does not permit to recognise, derecognise or measure financial assets and liabilities on a retrospective basis. The principal effects resulting from the implementation of HKAS 32 and HKAS 39 are summarised below:

*Convertible notes*

The Group has applied HKAS 32 which requires an issuer of a compound financial instrument (that contain both financial liability and equity components) to separate the compound financial instrument into its liability and equity components on its initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The principal impact of HKAS 32 on the Group is in relation to convertible notes issued by the Company that contain both liability and equity components. Previously, convertible notes were classified as liabilities on the balance sheet. Because HKAS 32 requires retrospective application, comparative figures have been restated. Comparative figures for 2004 have been restated in order to reflect the increase in effective interest on the liability components (see Note 3 for the financial impact).

*Classification and measurement of financial assets and financial liabilities*

The Group has applied the relevant transitional provisions in HKAS 39 with respect to classification and measurement of financial assets and financial liabilities that are within the scope of HKAS 39.

## 2. PRINCIPAL ACCOUNTING POLICIES *(continued)*

### C. Financial instruments *(continued)*

*Classification and measurement of financial assets and financial liabilities (continued)*

By 31 December 2004, the Group classified and measured its investments in debt and equity securities in accordance with the benchmark treatment of Statement of Standard Accounting Practice 24 "Accounting for Investments in Securities" issued by the HKICPA ("SSAP 24"). Under SSAP 24, the Group's investments in equity securities are classified as "other investments". "Other investments" are measured at fair value, with unrealised gains or losses included in the profit or loss. From 1 January 2005 onwards, the Group classifies and measures its investments in equity securities in accordance with HKAS 39. Under HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity, respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its investments in equity securities in accordance with the requirements of HKAS 39 for "financial assets at fair value through profit or loss". While there is no change in its measurement basis or the treatment of subsequent fair value changes, such adoption has no material effect on the Group's carrying amounts and liabilities at 1 January 2005.

*Financial assets and financial liabilities other than debt and equity securities*

From 1 January 2005 onwards, the Group classifies and measures its financial assets and financial liabilities other than debt and equity securities (which were previously outside the scope of SSAP 24) in accordance with the requirements of HKAS 39. As mentioned above, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". Financial liabilities are generally classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method. The adoption of HKAS 39 has had no material effect on the Group's accumulated profits.

### D. Owner-occupied leasehold interest in land

In previous periods, owner-occupied leasehold land and buildings were included in property, plant and equipment and were stated at cost less depreciation and amortisation at the balance sheet date and any accumulated impairment losses. In the current period, the Group has applied HKAS 17 "Leases". Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification. The leasehold interests in land are reclassified to prepaid lease payments for land under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis. The adoption of HKAS 17 has had no material impacts on the Group's results.

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES

The effects of the changes in the accounting policies described in note 2 on the results for the current and prior period are as follows:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Decrease in amortisation of goodwill | **421** | — |
| Increase in interest on the liability component of convertible notes | **(28)** | — |
| Increase in profit for the period | **393** | — |

Analysis of increase in profit for the period by line items presented according to their function:

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Decrease in other operating expenses | **421** | — |
| Increase in finance costs | **(28)** | — |
| | **393** | — |

## 3. SUMMARY OF THE EFFECTS OF THE CHANGES IN ACCOUNTING POLICIES *(continued)*

The cumulative effects of the changes in the accounting policies on the balance sheet items are summarised below:

| | As at 31.12.2004 (originally stated) | Adjustments | As at 31.12.2004 (restated) | Adjustment | As at 1.1.2005 (restated) |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Property, plant and equipment | 51,323 | (5,645) | 45,678 | — | 45,678 |
| Prepaid lease payments for land | — | 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) |
| Net effects on assets and liabilities | 54,297 | 221 | 54,518 | — | 54,518 |
| Accumulated profits | 21,155 | (41) | 21,114 | — | 21,114 |
| Other reserves | — | 262 | 262 | — | 262 |
| Net effect on equity | 21,155 | 221 | 21,376 | — | 21,376 |

The Group has not early applied the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

| | |
|---|---|
| HKAS 19 (Amendment) | Actuarial Gains and Losses, Group Plans and Disclosures |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS-Int 4 | Determining whether an Arrangement Contains a Lease |
| HKFRS-Int 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |

## 4. SEGMENT INFORMATION

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

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

| | **Toy products trading and manufacturing** *HK$'000* | **Securities trading and investments** *HK$'000* | **Consumer products trading and manufacturing** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| Turnover | 50,606 | 8,336 | 2,397 | 61,339 |
| Segment result | 3,725 | 2,862 | (460) | 6,127 |
| Unallocated other operating income | | | | 247 |
| Unallocated other corporate expenses | | | | (3,053) |
| Finance costs | | | | (41) |
| Profit before taxation | | | | 3,280 |
| Income tax expense | | | | (275) |
| Profit for the period | | | | 3,005 |

**For the six months ended 30 June 2004**

| | **Toy products trading and manufacturing** *HK$'000* | **Securities trading and investments** *HK$'000* | **Consumer products trading and manufacturing** *HK$'000* | **Consolidated** *HK$'000* |
|---|---|---|---|---|
| Turnover | 53,065 | 6,757 | 9,793 | 69,615 |
| Segment result | 2,864 | (1,945) | (98) | 821 |
| Unallocated other operating income | | | | 304 |
| Unallocated other corporate expenses | | | | (3,687) |
| Finance costs | | | | (6) |
| Loss on disposal of subsidiaries | | | | (894) |
| Loss on dilution of interests in subsidiaries | | | | (496) |
| Loss before taxation | | | | (3,958) |
| Income tax expense | | | | (464) |
| Loss for the period | | | | (4,422) |

## 5. PROFIT (LOSS) BEFORE TAXATION

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) before taxation has been arrived at after charging (crediting): | | |
| Depreciation and amortisation in respect of: | | |
| Property, plant and equipment | **1,504** | 149 |
| Prepaid lease payments for land | **75** | — |
| Goodwill (charged to other operating expenses) | **—** | 247 |
| Intangible asset (charged to other operating expenses) | **—** | 16 |
| Net unrealised holding loss on other investments (charged to other operating expenses) | **—** | 694 |
| Interest on bank overdraft | **—** | 6 |
| Interest on convertible notes | **41** | — |
| Interest income | **(17)** | (1) |

## 6. INCOME TAX EXPENSE

Income tax expense for both periods represents Hong Kong Profits Tax calculated at 17.5% of the estimated assessable profit for the six months ended 30 June 2005 and 30 June 2004.

No provision for tax in other jurisdictions has been made in the financial statements for both periods as neither the Company nor any of its subsidiaries had any assessable profit subject to tax in other jurisdictions.

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

## 7. DIVIDENDS

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

## 8. EARNINGS (LOSS) PER SHARE

The calculation of the basic and diluted earnings (loss) per share attributable to the equity holders of the Company for the six months ended 30 June 2005 and 30 June 2004 is based on the following data:

### Earnings

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | ***HK$'000*** | *HK$'000* |
| Profit (loss) for the period attributable to equity holders of the Company for the purposes of basic earnings (loss) per share | **2,802** | (5,374) |
| Effect of dilutive potential ordinary shares: Interest on convertible notes | **41** | N/A |
| Earnings for the purposes of diluted earnings per share | **2,843** | N/A |

### Number of shares

| | Six months ended 30 June | |
|---|---|---|
| | **2005** | 2004 |
| | **Number of shares** | Number of shares |
| | ***'000*** | *'000* |
| Weighted average number of ordinary shares for the purposes of basic earnings (loss) per share | **1,561,689** | 1,043,912 |
| Effect of dilutive potential ordinary shares in respect of share options | **2,509** | N/A |
| Effect of dilutive potential ordinary shares in respect of convertible notes | **16,851** | N/A |
| Weighted average number of ordinary shares for the purposes of diluted earnings per share | **1,581,049** | N/A |

No diluted loss per share for the six months ended 30 June 2004 has been presented as there were no potential ordinary shares outstanding during the period.

## 9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group incurred approximately HK$1,341,000 (30 June 2004: HK$10,281,000) on additions to manufacturing plant in subsidiaries operated in the People's Republic of China in order to upgrade their manufacturing capacity.

## 10. TRADE AND OTHER RECEIVABLES

The Group has a policy of allowing an average credit period ranging from 30 days to 90 days to its trade customers. Included in trade and other receivables are trade receivables of HK$17,524,000 (31 December 2004: HK$23,305,000) and their aged analysis is as follows:

| | **30.6.2005** | 31.12.2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 60 days | **15,013** | 15,956 |
| 61 to 90 days | **743** | 4,388 |
| Over 90 days | **1,768** | 2,961 |
| | **17,524** | 23,305 |

## 11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$19,448,000 (31 December 2004: HK$18,339,000) and their aged analysis is as follows:

| | **30.6.2005** | 31.12.2004 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 to 60 days | **13,152** | 12,123 |
| 61 to 90 days | **2,437** | 2,749 |
| Over 90 days | **3,859** | 3,467 |
| | **19,448** | 18,339 |

## 12. SHARE CAPITAL

| | **Number of shares** | **Amount** |
|---|---|---|
| | | *HK$'000* |
| Authorised: | | |
| Ordinary shares of HK$0.01 each at 1 January 2005 and 30 June 2005 | 50,000,000,000 | 500,000 |
| Issued and fully paid: | | |
| Ordinary shares of HK$0.01 each at 1 January 2005 | 1,528,540,000 | 15,285 |
| Issue of shares as a result of conversion of convertible notes *(note 14)* | 50,000,000 | 500 |
| Ordinary shares of HK$0.01 each at 30 June 2005 | 1,578,540,000 | 15,785 |

## 13. CONSTRUCTION COST PAYABLES

The amounts represented construction cost payables in respect of property, plant and equipment to third parties, which are unsecured and interest free. The amount of HK$16,388,000 was repaid during the period. In the opinion of the director, the remaining amount of HK$1,305,000 (included in trade and other payables) will be repaid within one year from the balance sheet date.

## 14. CONVERTIBLE NOTES

On 30 September 2004, the Company issued unsecured convertible notes with an aggregate principal amounts of HK$2,500,000. The convertible notes bear interest at a rate of 3% per annum. The convertible notes can be converted into ordinary shares in the Company at a conversion price of HK$0.05 per share, subject to adjustment, at the option of note holders, on any business day after 30 days following the date of issue of the convertible notes and the maturity date is 29 March 2006.

On 3 March 2005, the convertible note holders exercised their rights to convert the notes into 50,000,000 ordinary shares in the Company of HK$0.01 each at a conversion price of HK$0.05 per share.

## 15. CONTINGENT LIABILITIES

On 8 October 2004, the Company received a writ regarding the litigation instituted by Mr. Kwok Chin Wing, a former director of the Company, in respect of the loans due from two former subsidiaries of the Company namely, Rockapetta Industrial Company Limited and Grand Extend Investments Limited, for a sum of approximately HK$44.5 million and accrued interest thereof. The directors of the Company, after seeking advice from legal advisors, are of the opinion that the plaintiff does not have a valid claim against the Company and therefore it is unlikely to have any material adverse financial impact on the Group.

Deloitte.
德勤

# INDEPENDENT REVIEW REPORT

**TO THE BOARD OF DIRECTORS OF GFT HOLDINGS LIMITED 真樂發控股有限公司**
(FORMERLY KNOWN AS CAPITAL PROSPER LIMITED 興旺行有限公司)
*(incorporated in Bermuda with limited liability)*

We have been instructed by the Company to review the interim financial report set out on pages 1 to 14.

## Directors' responsibilities

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## Review work performed

We conducted our review in accordance with the Statement of Auditing Standards 700 "Engagements to Review Interim Financial Reports" issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

## Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended 30 June 2005.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
23 September 2005

# MANAGEMENT DISCUSSION AND ANALYSIS

## Business Review

During the period under review, over 82% of the turnover was contributed by trading and manufacturing of toy products, the core business of the Group. Facing severe competition, toy industry has to overcome a challenging year and the Group's sales in this segment suffered a mild decrease of around 4.6% when compared with the corresponding period of last year. However, the Group was benefited from operating its own manufacturing plant which commenced production in the last quarter of 2004 and stably picked up efficiency and capacity in the review period. The Group thus successfully grasped the manufacturing margin that was previously earned by its suppliers and sub-contractors. Hence, even in the midst of certain negative factors impacting toy industry, such as escalating material cost resulting from the soaring oil price and shortage of labour in the PRC, performance of the Group's toy business was improved when compared with last year.

Securities trading came as the second largest business segment of the Group. As to the consumer products business, turnover shrank following the disposal of the loss-making food and beverage business in Singapore last year. Nevertheless, weightings on securities trading and consumer products will continue to decline as the Board has decided to focus mainly on toy business.

## Operation Review

Came with the opening of the Group's first manufacturing plant, Great Force, in Boluo, Huizhou in the fourth quarter last year, the Group successfully transformed itself from a toy trading group into a one-stop toy manufacturer, capable to serve from concept design up to delivery of finished goods under one roof. During the review period, approximately one-fifth of the Group's toy product was produced in house and this proportion continues to grow as the efficiency and workmanship of Great Force are upgrading along the learning curve. Moreover, factories that are now under construction will be completed and commenced operation in the second half this year and will definitely drive up the production capacity of the Group.

The asset transfer agreement entered into by the Group with a connected person last year for a piece of land and the buildings erected thereon at a consideration of RMB 8.0 million (equivalent to approximately HK$7.5 million) was completed on 4 March 2005. The assets have become a significant part of Great Force's plant. The Group is now planning to erect on the vacant site an administration tower which will become the Group's headquarters in the PRC.

### Prospects

Due to seasonal factors, sales of the Group's products is generally peak in the second half of the year. However, because of fierce competition, high raw material cost and shortage in the PRC labor market, toy and gift industries will continue be difficult. The management will take cautious measures, including explore and develop high margin markets and products and exercise stringent cost control, to overcome the adversity.

In the coming years, the management will more concentrate on developing the core business, the trading and manufacturing of toys 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, developing products with high profits margin, such as its own brand name and toys or figures that comes along with current comics or films, is one of the strategy that avoid the severe competition in the OEM market.

## FINANCIAL REVIEW

### Review of Results

The Group reported a turnover of approximately HK$61.3 million for the six months ended 30 June 2005, representing a decrease of HK$8.3 million or 11.9% over that of last year. The drop in turnover is mainly attributable to the disposal of the loss-making food and beverage business in last year.

Despite the drop in turnover, the gross profit increased by 61.1% from HK$9.5 million in the corresponding period in last year to HK$15.3 million. More encouraging is the Group turned round in this review period from a net loss to a profit attributable to equity holders of the Company of HK$2.8 million. Such achievement is mainly due to gain on securities trading and the commencement of the manufacturing operation of the Group in the last quarter of 2004. Earning per share for the review period is HK0.18 cent whilst net assets per share is HK4.9 cents.

### Liquidity and Financial Resources

The financial position of the Group was maintained at a healthy level. There was no bank borrowing during the review period and the gearing ratio, expressed as the percentage of the total liability over the equity attributable to equity holders of the Company, as at 30 June 2005 dropped to 51% (31 December 2004: 90%) due to the exercise of the conversion right of the convertible notes and the partial repayment of certain non-current liabilities.

The Group also maintained sufficient working capital as at 30 June 2005 with net current assets of HK$11.8 million (31 December 2004: HK$34.3 million) and bank and cash balance of HK$10.4 million (31 December 2004: HK$29.5 million). Current ratio was kept at a healthy level of around 1.3 times (31 December 2004: 1.8).

## Capital Structure

The convertible rights of the convertible notes in an aggregate amount of HK$ 2.5 million were fully exercised by the holders during the period. 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.

## 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 directors of the Company, after seeking legal advice, 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 30 June 2005, the Group had approximately 2,100 employees (30 June 2004: 78) in Hong Kong and the PRC. The considerable increase in workforce was mainly attributable to the commencement of operations of the Group's manufacturing plant in Boluo, Huizhou, Guangdong in the last quarter of 2004.

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 2005 (30 June 2004: Nil).

## Directors' Interests in Securities

As at 30 June 2005, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of the Listed Issuers (the "Model Code") as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), were as follows:

### (a) Long positions in ordinary shares of the Company (the "Shares")

| | Number of Shares held | | | | |
|---|---|---|---|---|---|
| **Name of Director** | **Personal interest** | **Family interest** | **Corporate interest** | **Total** | **Percentage of issued share capital** |
| Leung Wai Ho ("Mr. Leung") | 22,500,000 | — | 301,500,000 *(Note 1)* | 324,000,000 | 20.5% |
| Wong Chung Shun ("Mr. Wong") | 22,500,000 | — | 301,500,000 *(Note 2)* | 324,000,000 | 20.5% |

*Notes:*

1. The Shares were held by Charm Management Limited, a wholly-owned subsidiary of New Spread Investments Limited. Each of Excel Advance Holdings Limited, Good Achieve Holdings Limited and Grand Achieve Group Limited is interested in one-third of the issued share capital of New Spread Investments Limited. As Mr. Leung owns the entire interest in Excel Advance Holdings Limited and 50% of the issued share capital of Grand Achieve Group Limited, he is deemed to be interested in 301,500,000 Shares held by Charm Management Limited.

2. As Mr. Wong owns the entire interest in Good Achieve Holdings Limited and 50% of the issued share capital of Grand Achieve Group Limited, he is deemed to be interested in 301,500,000 Shares held by Charm Management Limited.

### (b) Long positions in the share options of the Company

| Name of Director | Capacity | Nature of interest | Date of grant | Exercisable period | Exercise price per share *HK$* | Number of share options as at 1.1.2005 and 30.6.2005 |
|---|---|---|---|---|---|---|
| Mr. Leung | beneficial owner | personal interest | 1.12.2004 | 31.12.2004 to 30.12.2006 | 0.0676 | 1,278,540 |
| Mr. Wong | beneficial owner | personal interest | 1.12.2004 | 31.12.2004 to 30.12.2006 | 0.0676 | 1,278,540 |
| Ha Kee Choy, Eugene | beneficial owner | personal interest | 1.12.2004 | 31.12.2004 to 30.12.2006 | 0.0676 | 1,278,540 |
| Chui Chi Yun, Robert | beneficial owner | personal interest | 1.12.2004 | 31.12.2004 to 30.12.2006 | 0.0676 | 1,278,540 |
| Lam Kwok Cheong | beneficial owner | personal interest | 1.12.2004 | 31.12.2004 to 30.12.2006 | 0.0676 | 1,278,540 |
| Lai Wing Leung, Peter | beneficial owner | personal interest | 1.12.2004 | 31.12.2004 to 30.12.2006 | 0.0676 | 1,278,540 |

Save as disclosed above, as at 30 June 2005, none of the Directors or chief executive of the Company had any interests or short positions in the Shares, underlying shares and debentures of the Company or any of its associated corporations.

## Substantial Shareholders

As at 30 June 2005, the interests and short positions of those persons, other than the Directors and chief executive of the Company, in the Shares and underlying shares of the Company as recorded in the register required to be maintained by the Company under Section 336 of the SFO were as follows:

### Long positions in the Shares

| Name of shareholders | *Note* | Number of Shares held: Direct interest | Number of Shares held: Deemed interest | Percentage of issued share capital |
|---|---|---|---|---|
| Charm Management Limited | | 301,500,000 | — | 19.1% |
| New Spread Investments Limited | *1* | — | 301,500,000 | 19.1% |
| Excel Advance Holdings Limited | *1* | — | 301,500,000 | 19.1% |
| Good Achieve Holdings Limited | *1* | — | 301,500,000 | 19.1% |
| Grand Achieve Group Limited | *1* | — | 301,500,000 | 19.1% |
| Kingsway Lion Spur Technology Limited | | 198,642,970 | — | 12.6% |
| Festival Developments Limited | *2* | — | 198,642,970 | 12.6% |
| SW Kingsway Capital Holdings Limited | *2* | — | 198,642,970 | 12.6% |
| World Developments Limited | *3* | — | 198,642,970 | 12.6% |
| Innovation Assets Limited | *3* | — | 198,642,970 | 12.6% |
| Kingsway International Holdings Limited | *3* | — | 198,642,970 | 12.6% |
| Mr. Choi Koon Shum, Jonathan | *4* | — | 198,642,970 | 12.6% |
| Ms. Kwan Wing Kum, Janice | *4* | — | 198,642,970 | 12.6% |
| Mr. Lam William Ka Chung | *5* | — | 198,642,970 | 12.6% |
| Ms. Lam Wong Yuk Sin, Mary | *5* | — | 198,642,970 | 12.6% |

*Notes:—*

1. Each of Excel Advance Holdings Limited, Good Achieve Holdings Limited and Grand Achieve Group Limited is interested in one-third of the issued share capital of New Spread Investments Limited, which in turn owns the entire interest in Charm Management Limited. Therefore, each of Excel Advance Holdings Limited, Good Achieve Holdings Limited, Grand Achieve Group Limited and New Spread Investments Limited is deemed to be interested in 301,500,000 Shares.

2. SW Kingsway Capital Holdings Limited ("SW") owns the entire interests in Festival Developments Limited ("FDL"), which in turn owns the entire interest in Kingsway Lion Spur Technology Limited ("KLST"). Therefore, both SW and FDL are deemed to be interested in 198,642,970 Shares held by KLST.

3. World Developments Limited ("WDL") owns approximately 74% equity interest in SW and is a wholly owned subsidiary of Innovation Assets Limited ("IAL") whose entire issued share capital is beneficially owned by Kingsway International Holdings Limited ("KIHL"). Therefore, all WDL, IAL and KIHL are deemed to be interested in 198,642,970 Shares held by KLST.

4. Mr. Choi Koon Shum, Jonathan ("Mr. Choi") beneficially owns or controls 36,929,651 shares (approximately 46%) of the issued share capital of KIHL. Thus, Mr. Choi and his spouse, Ms. Kwan Wing Kum, Janice are deemed to be interested in 198,642,970 Shares held by KLST.

5. Mr. Lam William Ka Chung and his spouse, Ms. Lam Wong Yuk Sin, Mary, beneficially own or control 32,432,317 shares (approximately 41%) in the issued share capital of KIHL and are deemed to be interested in 198,642,970 Shares.

Save as disclosed above, as at 30 June 2005, the Company has not been notified of any interests or short positions in the Shares or underlying shares of the Company representing 5 percent or more in the issued share capital of the Company and recorded in the register maintained under Section 336 of the SFO.

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

During the six months ended 30 June 2005, the Company has not redeemed, and neither the Company nor any of its subsidiaries has purchased or sold any of its 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 2005 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, all the Directors (except the chairman of the Company) are subject to the retirement provisions under the Company's Bye-laws. 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 the CG Code.

The Company has adopted the Model Code 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 2005 of the Group has been reviewed by the audit committee of the Company and the auditors of the Company, Messrs. Deloitte Touche Tohmatsu.

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

Hong Kong, 23 September 2005

真樂發控股有限公司
GFT Holdings Limited