

Interim  
Report  
2011/12



**GOOD FELLOW RESOURCES HOLDINGS LIMITED**

**金威資源控股有限公司\***

(Incorporated in Bermuda with limited liability)

Stock code:00109

## UNAUDITED CONSOLIDATED INTERIM RESULTS

The board (The "Board") of Directors (the "Directors") of Good Fellow Resources Holdings Limited (the "Company") is pleased to announce the unaudited consolidated interim financial statements of the Company and its subsidiaries (the "Group") for the six months ended 31st December, 2011 (the "Period") together with the comparative figures. The consolidated interim financial statements have not been audited, but have been reviewed by the Company's Audit Committee.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 31st December,	
		2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
	Notes		
Turnover	2	1,328	15,632
Gross profit		1,328	15,632
Other revenue	3	1,457	27
Other net gains and losses	3	(37,128)	(787)
Administrative expenses		(9,889)	(8,965)
Finance costs		(2,065)	(1,853)
Share of profit/(loss) of a jointly controlled entity		2,364	(620)
Profit/(loss) before taxation	4	(43,933)	3,434
Taxation	5	284	249
Profit/(loss) for the period attributable to owners of the Company		(43,649)	3,683
Other comprehensive income			
Share of other comprehensive income of a jointly controlled entity		9,289	–
Total comprehensive income for the period attributable to owners of the Company		(34,360)	3,683
Earnings/(loss) per share attributable to owners of the Company		HK Cents	HK Cents
– Basic and diluted	6	(3.03)	0.3

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the six months ended 31st December, 2011 (unaudited)**

	Share capital HK\$'000	Share premium HK\$'000	Contributed Surplus HK\$'000	Special reserve HK\$'000	Other reserves HK\$'000	Translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Convertible notes reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st July, 2011	144,221	24,916	170,789	847	52,226	14,501	15,789	7,855	469,420	900,564
Transactions with owners – Equity settled share-based payment	-	-	-	-	-	-	1,203	-	-	1,203
Loss for the period	-	-	-	-	-	-	-	-	(43,649)	(43,649)
Other comprehensive income For the period	-	-	-	-	-	9,289	-	-	-	9,289
Total comprehensive income of the period	-	-	-	-	-	9,289	-	-	(43,649)	(34,360)
At 31st December, 2011	<u>144,221</u>	<u>24,916</u>	<u>170,789</u>	<u>847</u>	<u>52,226</u>	<u>23,790</u>	<u>16,992</u>	<u>7,855</u>	<u>425,771</u>	<u>867,407</u>

**CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY****For the six months ended 31st December, 2010 (unaudited)**

	Share capital HK\$'000	Share premium HK\$'000	Contributed Surplus HK\$'000	Special reserve HK\$'000	Other reserve HK\$'000	Translation reserve HK\$'000	Share-based compensation reserve HK\$'000	Convertible notes reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1st July, 2010	144,221	24,916	170,789	847	39,387	(5)	14,807	7,855	(2,490)	400,327
Transactions with owners – Equity settled share-based payment	-	-	-	-	-	-	982	-	-	982
Profit for the period	-	-	-	-	-	-	-	-	3,683	3,683
Total comprehensive income of the period	-	-	-	-	-	-	-	-	3,683	3,683
At 31st December, 2010	<u>144,221</u>	<u>24,916</u>	<u>170,789</u>	<u>847</u>	<u>39,387</u>	<u>(5)</u>	<u>15,789</u>	<u>7,855</u>	<u>1,193</u>	<u>404,992</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

		At 31st December, 2011 (Unaudited) HK\$'000	At 30th June, 2011 (Audited) HK\$'000
	Notes		
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	7	1,013	1,070
Interest in a jointly controlled entity	8	718,911	707,258
		<u>719,924</u>	<u>708,328</u>
<b>CURRENT ASSETS</b>			
Trade and other receivables	9	7,328	7,420
Investments held for trading	10	64,913	97,855
Bank balances and cash		110,037	119,758
		<u>182,278</u>	<u>225,033</u>
<b>CURRENT LIABILITIES</b>			
Other payables	11	2,592	2,030
<b>NET CURRENT ASSETS</b>		<u>179,686</u>	<u>223,003</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>899,610</u>	<u>931,331</u>
<b>NON-CURRENT LIABILITIES</b>			
Convertible notes	14	31,809	30,089
Deferred tax liabilities		394	678
		<u>32,203</u>	<u>30,767</u>
<b>NET ASSETS</b>		<u>867,407</u>	<u>900,564</u>
<b>Capital and reserves attributable to owners of the Company</b>			
Share capital	13	144,221	144,221
Reserves		723,186	756,343
		<u>867,407</u>	<u>900,564</u>

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

For the six months ended  
31st December,

	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Net cash used in operating activities	(9,636)	(19,639)
Net cash from/(used in) investing activities	(85)	15,025
Net cash used in financing activities	–	(345)
	<hr/>	<hr/>
Net decrease in cash and cash equivalents	(9,721)	(4,959)
Cash and cash equivalents at beginning of the period	119,758	119,582
	<hr/>	<hr/>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u>110,037</u>	<u>114,623</u>

## NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION AND PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements (the “Interim Financial Report”) have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”).

The preparation of the Interim Financial Report in conformity with HKAS 34 requires the management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The Interim Financial Report has been prepared under the historical cost convention as modified by the revaluation of investments held-for-trading and certain financial instruments, which are carried at fair values, and in accordance with accounting principles generally accepted in Hong Kong, and accounting standards issued by the HKICPA.

The accounting policies used in preparation of the condensed consolidated interim financial statements are consistent with those adopted in the annual financial statements for the year ended 30th June, 2011.

In the current period, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards (“HKFRS”) issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1st July, 2011. The adoption of these new and revised HKFRS did not result in significant changes to the Group’s accounting policies, presentation of the Group’s unaudited condensed consolidated financial statements and amounts reported for the current and prior periods.

The Group has not early adopted the new and revised HKFRS that have been issued but are not yet effective for the current period. The Group has already commenced an assessment of the impact of the new and revised HKFRS but is not yet in a position to reasonably estimate whether the new and revised HKFRS would have a significant impact on the Group’s results of operations and financial position.

## 2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the aggregate of the net amounts received and receivable from third parties, less returns and allowance and is analysed as follows:

	For the six months ended 31st December,	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Guaranteed return from investment (Note 8)	–	15,000
Dividend income from investments	1,328	632
	<u>1,328</u>	<u>15,632</u>

### Reportable segments

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to make strategic decisions.

The Group has two reportable segments (2010: two). The segments are managed separately as each business offers different products and services and requires different business strategies. The following summary describes the operations in each of the Group's reportable segments:

- Investment and financial services – trading of securities and investment holding and provision of financial services; and
- Distribution and trading – trading of apparel and consumption goods.



Segment information about these reportable segments is presented below:

**For the six months ended 31st December, 2011 (unaudited)**

	Investment and financial services HK\$'000	Distribution and trading HK\$'000	Consolidated HK\$'000
Turnover – external	1,328	–	1,328
Segment results	(32,998)	(438)	(33,436)
Unallocated corporate income			1,457
Unallocated corporate expenses (including share-based payments)			(9,889)
Finance costs			(2,065)
Loss before taxation			(43,933)
Taxation			284
Loss for the period			(43,649)

**For the six months ended 31st December, 2010 (unaudited)**

	Investment and financial services HK\$'000	Distribution and trading HK\$'000	Consolidated HK\$'000
Turnover – external	15,632	–	15,632
Segment results	14,013	–	14,013
Unallocated corporate income			27
Unallocated corporate gains			26
Unallocated corporate expenses (including share-based payments)			(8,779)
Finance costs			(1,853)
Profit before taxation			3,434
Taxation			249
Profit for the period			3,683

**Geographical information**

The Group's operations are principally located in Hong Kong in which all of its revenue was derived and non-current assets other than financial instruments are located. The Group determines the geographical location of non-current assets other than financial instruments, and revenue by the location of the assets and customers/payees respectively.

## 3. OTHER REVENUE, OTHER NET GAINS AND LOSSES

	For the six months ended 31st December,	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Other revenue		
Rental income from sub-lease of office premises	1,444	–
Bank interest income	12	27
Sundry income	1	–
	<u>1,457</u>	<u>27</u>
Other net gains and (losses)		
Net realized gains on sales of investments	315*	3,625*
Net changes in fair value of investments held for trading	(37,443)	(4,438)
	<u>(37,128)</u>	<u>(813)</u>
Reversal of long outstanding payables and accruals	–	26
	<u>(37,128)</u>	<u>(787)</u>
Other revenue and other net gains and (losses)	<u>(35,671)</u>	<u>760</u>

\* Net realised gains derived from sale of investments held for trading with proceeds of HK\$7,515,000 (2010: HK\$50,602,000) net of transaction costs.

**4. PROFIT/(LOSS) BEFORE TAXATION**

	For the six months ended	
	31st December 2011 (Unaudited) HK\$'000	31st December 2010 (Unaudited) HK\$'000
Profit/(loss) before taxation has been arrived at after charging:		
Staff costs	4,635	4,131
Share-based payments	1,203	982
Depreciation of property, plant and equipment	155	167
Consultancy fees	495	480
Legal and professional fees	539	593

**5. TAXATION**

The amount of tax credit in the consolidated statement of comprehensive income represents:

	2011 HK\$'000	2010 HK\$'000
Deferred tax		
– Current period (Note 14)	(284)	(249)

No provision for Hong Kong profits tax has been made for both periods as the relevant group entities have tax losses available to offset against the estimated assessable profits for the period and/or have no estimated assessable profits for both periods.

**6. EARNINGS/(LOSS) PER SHARE**

The calculation of basic earnings per share is based on the loss for the period of approximately HK\$43,649,000 (2010: profit of HK\$3,683,000) and on the weighted average number of 1,442,214,000 (2010: 1,442,214,000) ordinary shares in issue during the period.

The Company's share options granted had an anti-dilutive effect to the earning per share calculation for the current period.

**7. ADDITIONS TO PROPERTY, PLANT AND EQUIPMENT**

During the period, the Group spent HK\$98,000 (2010: HK\$ nil) on additions to property, plant and equipment.

**8. INTEREST IN A JOINTLY CONTROLLED ENTITY**

	31 December, 2011 (Unaudited) HK\$'000	30 June, 2011 (Audited) HK\$'000
Unlisted shares as cost*	–	–
Share of post acquisition results and reserves	518,911	507,258
Share of net assets/(liabilities)	518,911	507,258
Loan to the jointly controlled entity	200,000	200,000
	<u>718,911</u>	<u>707,258</u>

\* The Company holds 50 ordinary shares of HK\$1 each in the jointly controlled entity indirectly.

Particulars of the jointly controlled entity are as follows:

Name of company	Place of incorporation	Issued share capital	Equity interest indirectly held by the Company	Principal activities
Grand International Development Limited ("GIDL")	Hong Kong	HK\$100	50%	Investment holding

On 17th June, 2009, Great Peace Global Group Limited ("Great Peace"), a wholly owned subsidiary of the Company, entered into an agreement (the "Agreement") with Great Team Capital Investment Limited ("GTCIL"), pursuant to which Great Peace and GTCIL conditionally agreed to establish Grand International Development Limited ("GIDL"), a company incorporated in Hong Kong with limited liability, primarily for the establishment of Fujian Xianke Industrial Co. Ltd.\* 福建先科實業有限公司 ("Fujian Xianke"), a jointly controlled entity established in the People's Republic of China (the "PRC") and owned as to 60% by GIDL and 40% by a sino-partner. Fujian Xianke is engaged in property development in Fuzhou, PRC. With all the conditions of the Agreement having been fulfilled, the formation of Fujian Xianke was completed on 21st October, 2009. Upon completion, Great Peace has been allotted and issued in aggregate fifty shares of GIDL, representing 50% of the entire issued share capital of GIDL.

According to the shareholders' agreement between Great Peace and GTCIL, each shareholder shall advance an unsecured shareholders' loan of HK\$200 million to GIDL or Fujian Xianke on interest free basis to finance the amount of registered capital and investment amount of Fujian Xianke to be contributed by GIDL in proportion to its equity interest in Fujian Xianke. GIDL or Fujian Xianke will not be demanded by GTCIL and/or Great Peace to repay the shareholders' loan during the first five years from 21st October, 2009, the date of completion of formation of GIDL, on condition that GTCIL and/or Great Peace remain(s) to be the shareholders of GIDL during the said period. In the event that GTCIL and/or Great Peace cease(s) to be the shareholders of GIDL during the said period, repayment of the shareholders' loans will be on demand.

GTCIL has agreed to provide a series of annual guaranteed returns ("Guarantee Returns") to Great Peace for five years, representing 15% of the investment sum made by Great Peace for the first and second year and 20% of the investment sum made by Great Peace for the third to fifth year from the completion of establishment of Fujian Xianke. GTCIL shall compensate Great Peace for any shortfall between the Guarantee Returns and the dividend received from GIDL in the relevant financial years. No guarantee return was accounted for the six months ended 31st December, 2011 as Great Team will terminate the guaranteed returns arrangement since 1 July 2011 upon the completion of the disposal of the Group's interest in a jointly controlled entity as detailed below.

As at 31st December, 2011, there was approximately HK\$7,264,000 capital commitment attributable to the Group's effective interest in the jointly controlled entity.

During the current period, the Group entered into various agreements in connection with the disposals of its entire equity interest in a wholly-owned subsidiary (the "Disposal"), Great Peace (the "Sale Share"), and the loan advanced to Great Peace (the "Sale Loan"). Great Peace holds 50% equity interest in a jointly controlled entity, GIDL, which in turn holds 60% equity interest in its jointly controlled entity, Fujian Sinco.

Some of details of the agreements already more fully disclosed in the Company's announcement dated 30th September, 2011, are set out below.

On 26th July, 2011, the Company entered into a sale and purchase agreement (the "Previous Agreement") with Grandbiz Holdings Limited (the "Previous Purchaser") and its sole shareholder, Mr. Guo, pursuant to which the Company had conditionally agreed to sell and the Previous Purchaser had conditionally agreed to acquire from the Company the Sale Share and Sale Loan. Subsequent to the date of the Previous Agreement, the Company located a new purchaser for the Sale Share and the Sale Loan with more attractive terms, and on 30th September, 2011, the parties to the Previous Agreement entered into a termination agreement to terminate the Previous Agreement with effect from the date of the termination agreement.

On 30th September, 2011, the Company entered into another sale and purchase agreement (the "Agreement") with Grand Supreme Limited (the "Purchaser") and its holding company, China Grand Forestry Green Resources Group Limited ("China Grand"), a company with shares listed on the Stock Exchange, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire from the Company the Sale Share and Sale Loan at an aggregate consideration of HK\$942,000,000 (the "Consideration") comprised of (i) HK\$110.5 million in cash; (ii) HK\$541.5 million in convertible shares of China Grand with conversion price of HK\$3.00 per share (the "Convertible Preference Shares"); and (iii) balance in convertible note(s) of China Grand of 5-year term with conversion price of HK\$3.00 per share (the "Convertible Notes").

As indicated in the circular on 10th January 2012 in respect of the Disposal (the "Circular"), the Convertible Preference Shares and the Convertible Notes (comprising the debt component and the derivative components) will be initially recognized at fair value in the statement of financial position of the Company by reference to, among other things, the trading price of share of China Grand. Any subsequent changes in the trading price of China Grand Share up to the dates of receipts of the Convertible Preference Shares and the Convertible Notes, respectively, will therefore affect the initial measurement of the fair value of the Consideration accordingly and the amount of the gain/loss on the Disposal upon completion.

The Directors are aware that the Consideration, which was determined on or about the date of the Agreement, is subject to the risks of change in financial market conditions and price fluctuation as the share price of China Grand may fluctuate. The Directors observed the Consideration at fair value of approximately HK\$404 million as at 4th January 2012, representing 43% to the principal amount, when the closing prices of China Grand Shares during the period from 3 October 2011 (the date immediately after the Company announced the Disposal) to 4th January 2012 (both dates inclusive) were in the range between HK\$2.16 to HK\$0.73 (both figures inclusive, adjusted for the effect of China Grand capital reorganization which consolidated every 20 shares into 1 share). Set out below is a summary of the fair value of the Consideration as at 4th January 2012 and relative percentage to the principal amount:

	<b>Principal amount</b>	<b>Fair value as at 4th January 2012</b>	<b>Percentage to the principal amount</b>
	(HK\$)	(HK\$)	(%)
Cash	190,500,000	190,500,000	100.00%
Convertible Notes	210,000,000	116,567,610	55.51%
Convertible Preference Shares	541,500,000	97,036,800	17.92%
<b>Total</b>	<b>942,000,000</b>	<b>404,104,410</b>	<b>42.90%</b>

Based on the unaudited pro forma financial information of the Group immediately after completion of the Disposal as set out in the Appendix III to the Circular, the Group's total assets would decrease by approximately 52.7% from approximately HK\$933 million to HK\$441 million, and the Group's total liabilities would increase by approximately 97% from approximately HK\$33 million to HK\$65 million assuming the Disposal had been completed on 30 June 2011. And the Group's unaudited pro forma estimated loss arising from the Disposal as if the Disposal had taken place on 30 June 2011, based on fair values as at 4 January 2012 of segregated components of the HK\$942,000,000 consideration sum, were loss of approximately HK\$524,730,000. The carrying value of the interest in jointly controlled entity has increased by approximately HK\$11,653,000 during the six months ended 31 December 2011, the estimated loss arising from the Disposal as if the Disposal taken place on 31 December 2011 would increase to HK\$536,383,000, approximately HK\$11,653,000 higher than the respective estimated loss on 30 June 2011.

Further, the fair value of the Consideration is also subjected to adjustment should the net asset value of the audited completion account of Fujian Sinco give rise to any shortfall from the net asset guarantee as detailed in the Circular.

Considering the above, comprehensive information forming basis for assessment of fair value impairment for the Group's interest in a jointly controlled entity as of 31st December, 2011 are not yet conclusive pending on the fulfillment of the audited completion account of Fujian Sinco and future changes of the fair value of the to-be-received convertible notes up to the date of final receipt of the Convertible Notes.



**9. TRADE AND OTHER RECEIVABLES**

	At 31st December, 2011 (Unaudited) HK\$'000	At 30th June, 2011 (Audited) HK\$'000
Guaranteed return from investment receivable from a joint venture partner ( <i>Note 8</i> )	6,534	6,534
Deposits and prepayments	794	886
	<u>7,328</u>	<u>7,420</u>

**10. INVESTMENTS HELD-FOR-TRADING**

The amount at 31st December, 2011 and 30th June, 2011 represented investments in equity securities listed in Hong Kong, stated at market value.

**11. OTHER PAYABLES**

	At 31st December 2011 (Unaudited) HK\$'000	At 30th June 2011 (Audited) HK\$'000
Accruals and deposits received	2,592	2,030
	<u>2,592</u>	<u>2,030</u>

## 12. EQUITY SETTLED SHARE-BASED TRANSACTION

In 2008, the Company adopted a share option scheme that entitles key management personnel and employees to subscribe for shares in the Company. The terms and conditions of the share option scheme are disclosed in note 27 to the financial statements for the year ended 30 June, 2011 (the "Share Option Scheme").

A summary of option movements for the six months ended 31st December, 2011 is presented below:

	Six months ended		Year ended	
	31st December, 2011 (Unaudited)		30th June, 2011 (Audited)	
	Weighted average exercise price HK\$'000	Number of shares involved in the options	Weighted average exercise price HK\$'000	Number of shares involved in the options
At beginning of period/year	1.13	25,080,000	1.13	25,080,000
Granted	-	-	-	-
Exercised	-	-	-	-
Cancelled	-	-	-	-
	<hr/>	<hr/>	<hr/>	<hr/>
Outstanding at end of period/year	1.13	25,080,000	1.13	25,080,000
	<hr/>	<hr/>	<hr/>	<hr/>
Exercisable of the end of period/year	1.13	25,080,000	1.16	23,340,000
	<hr/>	<hr/>	<hr/>	<hr/>

No share option has been granted nor exercised during the six months ended 31st December, 2011 (2010: nil).

**13. SHARE CAPITAL**

	At 31st December, 2011 (Unaudited) HK\$'000	At 30th June, 2011 (Audited) HK\$'000
Authorized:		
30,000,000,000 (30th June, 2010: 30,000,000,000) ordinary shares of HK\$0.1 each (30th June, 2010: HK\$0.1 each)	3,000,000	3,000,000
Issued and fully paid:		
1,442,214,000 (30th June, 2010: 1,442,214,000) ordinary shares of HK\$0.1 each (30th June, 2010: HK\$0.1 each)	144,221	144,221

**14. CONVERTIBLE NOTES**

	At 31st December, 2011 (Unaudited) HK\$'000	At 30th June, 2011 (Audited) HK\$'000
Convertible Notes – issued	39,664	37,944

The convertible notes were issued for among other purposes the financing of a new jointly controlled entity as stated in note 8. The principal terms of the convertible notes are as follows:

Date of issue	17th August, 2009
Aggregate principal amount	HK\$161.7 million
Outstanding principal amount	HK\$34.2 million at period end date at period end date
Denomination	In multiple of HK\$100,000
Interest rate per annum	2%, payable annually in arrears
Conversion price applicable	HK\$0.30, subject to the usual adjustments
Maturity date	3 years from the date of issue

The movements of the liability component and equity component of the convertible notes during the six months ended 31st December, 2011 are as follows:

	Liability component of convertible notes HK\$'000	Equity component of convertible notes HK\$'000	Total HK\$'000
At beginning of period	30,089	7,855	37,944
Imputed interest expenses (Note)	2,065	–	2,065
Coupon interest	(345)	–	(345)
At end of period	<u>31,809</u>	<u>7,855</u>	<u>39,664</u>

Note: Interest charged is recorded as finance costs in the consolidated statement of comprehensive income.

The convertible notes comprised:

	HK'000
Liability component	31,809
Equity component	7,855
Deferred taxation include in equity component (Note)	<u>(394)</u>

Note: Deferred taxation included approximately HK\$394,000 (Note 5) credited to profit or loss during the current period.

**15. COMMITMENTS****Commitments under operating leases**

As at 31st December, 2011, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of rented premises, which fall due as follows:

	At 31st December, 2011 (Unaudited) HK\$'000	At 30th June, 2011 (Audited) HK\$'000
Within one year	3,779	3,779
In the second to fifth years inclusive	2,205	5,984
	<u>5,984</u>	<u>9,763</u>

**16. COMPARATIVE**

Certain comparative figures have been re-classified to conform with change in presentation or disclosure in the Period.

**17. EVENTS AFTER THE REPORTING PERIOD**

Subsequent to 31st December, 2011, the Group had the following significant post balance sheet events:

- (a) As stated in the Company's announcement dated 30th September, 2011 and the Company's circular dated 10th January, 2012 (the "VSD Circular") and the notice of the special general meeting dated 10th January, 2012 (the "VSD Notice") in respect of a very substantial disposal transaction, the Company entered into the Agreement with the Purchaser and its holding company, China Grand, pursuant to which the Company has conditionally agreed to sell and the Purchaser has conditionally agreed to acquire from the Company the Sale Share and Sale Loan at an aggregate consideration of HK\$942,000,000, which will be satisfied as to (i) HK\$190,500,000 in cash; (ii) HK\$541,500,000 by the issue and allotment of the convertible preference shares of China Grand; and (iii) HK\$210,000,000 by way of issue of the convertible notes of China Grand.

The Agreement and the transactions contemplated thereunder as set out in the resolution of the VSD Notice was approved by shareholders in special general meeting on 30th January, 2012.

Further details are set out in the VSD Circular.

On 15th February 2012, all the conditions precedent under the Agreement have been fulfilled and the Completion took place.

As a result of the completion of the Disposal, China Grand Group has paid (i) HK\$110.5 million in cash; and (ii) HK\$541.5 million by the allotment and issue of the Convertible Shares by China Grand to designated party of the Company as part of the Consideration of the Disposal pursuant to and in accordance with the Agreement. Pursuant to and in accordance with the Agreement, the balance of the Consideration of the Disposal shall be satisfied by way of issue of the Convertible Note(s) by China Grand to the Company or its nominee(s) on the 10th Business Day after the date on which the completion accounts for Fujian Sinco is issued. Upon completion, Great Peace has ceased to be a subsidiary of the Company.

Please also refer to Note 8 of the financial statements for details in respect of the potential financial impact due to the Disposal.

- (b) As stated in the Company's announcement dated 23rd December, 2011 and the Company's circular dated 10th January, 2012 (the "MT Circular") and the notice of the special general meeting dated 10th January, 2012 (the "MT Notice") in respect of a major transaction in relation to a loan advance, Golden Wayford Limited (金威豐有限公司) (the "Lender"), a wholly-owned subsidiary of the Company, entered into a loan agreement (the "Loan Agreement") with HK Zhongcui International Holding Group Limited (香港中萃國際控股集團有限公司) (the "Borrower"), pursuant to which the Lender agreed to grant to the Borrower a loan (the "Loan") of HK\$100 million for a term of 3 years.

The Loan Agreement and the transactions contemplated thereunder as set out in the resolution of the MT Notice was approved, ratified and confirmed by shareholders in special general meeting on 30th January, 2012.

Further details are set out in the MT Circular.

## 18. APPROVAL OF THE INTERIM REPORT

These interim financial statements were approved and authorized for issue by the Board on 27th February, 2012.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial Review

For the six months period ended 31st December, 2011, the turnover and gross profit of the Group decreased by approximately HK\$14,304,000 to approximately HK\$1,328,000 (2010: HK\$15,632,000), representing an decrease of approximately 91.51% as compared to the corresponding period of last year. Decrease in turnover was primarily caused by the decrease in turnover related to business activities in investment and financial services with respect to guarantee income which there was nil (2010: 15,000,000) income recorded for the period under review due to the disposal as detailed in note 8 of the financial statements.

Business activities in distribution and trading have not contributed to turnover (2010: nil) for the Group for the period under review.

The Group has net loss of approximately HK\$43,649,000 for the period under review compared to a net profit of HK\$3,683,000 of the corresponding period of last year. The decrease in net profit of approximately HK\$47,332,000 was mainly due to (i) profit on disposal of investment held for trading of approximately HK\$315,000 for the current period as compared to a profit of approximately HK\$3,625,000 for the corresponding period of last year leading to decrease in net profit of approximately HK\$3,310,000 as market adjusted downward during the period under review and less trades were made; and (ii) recognition of accounting loss of approximately HK\$37,443,000 as compared to accounting loss of approximately HK\$4,438,000 for the same period last year for the listed shares investments held and stated at market value at period end leading to decrease in net profit of approximately HK\$33,005,000 as market sentiment deteriorated in last quarter of 2011. Combining the impacts of the decrease in gross profit of approximately HK\$14,304,000 and as narrated in (i) and (ii), the Group has generated a net loss for the six months ended 31st December, 2011 compared to a net profit for the corresponding period of last year.

### **Business Review**

With the global economy in particular the European region on turmoil, the Group has been cautious on its investment and financial services segment and number of its buy and sell trades of securities have been reduced, the Group will continue to monitor its investment portfolios and diversified its investment portfolios with shareholders' capital return and volatility risks both considered in the Group's holdings of portfolios of the investment and financial services segment. With the disposal of the Group's jointly controlled entity to be completed, the consideration to be received will give resources for the Group to explore investment opportunities. The Group has carried out loan reviews and subsequent to current period end approved loan financing of HK\$100 million which will bring loan financing income to the Group. The Group's distribution and trading segment has not brought turnover to the Group during the current period under review but the committed orders on hand for, inter alias, apparel and consumption goods, are anticipated to complete and bring turnover to the Group during the year ending 30 June 2012.

### **Future Prospects**

With uncertainty of any third round of quantitative easing in the United States and the European economic crisis, the Group will continue to review and consider further investment opportunities which bring income to the Group. The loan financing income of the new loan of HK\$100 million granted will help the Group to maintain its internal resources to continue its development during the forthcoming worldwide economic adjustment periods.

### **Liquidity and Financial Resources**

The Group maintains its strong financial position with cash and cash equivalents of approximately HK\$110.04 million (30th June, 2011 HK\$119.76 million).

As at 31st December, 2011 the Group had a net current assets of approximately HK\$179.69 million (30th June, 2011: HK\$223.00 million). The shareholders' equity was approximately HK\$867.41 million (30th June, 2011: HK\$900.56 million) and there was no borrowing (not including converted convertible notes liabilities). The Group's gearing ratio, calculated using the total borrowings (including convertible notes liabilities) as a percentage of total shareholders' funds as basis, was approximately 3.67%.



**Contingent Liabilities**

As at 31st December, 2011, the Group did not have any significant contingent liabilities.

**Very Substantial Disposal and Very Substantial Acquisition**

Please refer to notes 8 and 17 of the financial statements for details of the Group's disposal of the joint venture company which was approved in a special general meeting on 30th January, 2012 and the consideration comprised of cash, convertible preference shares and convertible notes to be received upon full completion.

**Material Transaction**

Please refer to note 17 of the financial statements for details of a loan of HK\$100 million granted which was approved in a special general meeting on 30th January, 2012.

**INTERIM DIVIDEND**

The Directors do not recommend the payment of an interim dividend for the six months ended 31st December, 2011 (2010: nil).

**FOREIGN EXCHANGE EXPOSURE**

The Group's monetary assets and liabilities were primarily denominated in Hong Kong dollars and thus the Group would not have significant exposures to material fluctuations in exchange rates. As at 31st December, 2011, the Group had no material exposures under foreign exchange contracts, interest, currency swaps or other financial derivatives.

## DISCLOSURE OF INTERESTS

### (i) Directors

At 31st December, 2011 the interests or short positions of each Director and the chief executive in the shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (“SFO”)) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO); or (b) were required pursuant to Section 352 of the SFO to be entered in the register referred to therein; or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) to be notified to the Company and the Stock Exchange were as follows:

#### *Ordinary shares of the Company*

Directors	Capacity	shares held	Number of issued ordinary options held	Number of share Total	Approximate percentage of the issued share capital of the Company
Mr. Ng Leung Ho (Note 1)	Beneficial owner/Interest of controlled corporation	506,741,883	–	506,741,883	35.13%
Mr. Lo Wan Sing, Vincent	Beneficial owner	40,600,000	1,400,000	42,000,000	2.91%
Mr. Law Wai Fai	Beneficial owner	–	1,200,000	1,200,000	0.08%
Mr. Chau On Ta Yuen	Beneficial owner	300,000	900,000	1,200,000	0.08%

Note 1:

Included (i) personal interests in 100,000,000 underlying shares representing the conversion rights attached to the convertible notes of principal amount of HK\$30,000,000 issued by the Company and (ii) corporate interests attributed to Mr. Ng Leung Ho of 100,000,000 shares held by Rich Capital Global Enterprises Limited, which is directly wholly owned by Mr. Ng Leung Ho.

Save as disclosed above, none of the Directors and the chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code adopted by the Company to be notified to the Company and the Stock Exchange.

#### (ii) Substantial Shareholder

At 31st December, 2011, so far as is known to the Directors, shareholders (other than the Directors or chief executive of the Company) who had an interest or short position in the shares and underlying shares of the Company which have been disclosed to the Company under the provision of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name of shareholder	Capacity	Number of issued ordinary shares/underlying shares held	Approximate percentage of the issued share capital of the Company
Rich Capital Global Enterprises Limited (Note)	Beneficial owner	100,000,000	6.93%
Dong Xue Jian	Beneficial owner	72,650,000	5.03%

Note: The entire issued capital of Rich Capital Global Enterprises Limited is directly wholly owned by Mr. Ng Leung Ho.

Save as disclosed herein, no other person was directly or indirectly beneficially interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company as at 31st December, 2011.

None of the Directors has any direct or indirect interest in any assets which have been, since the date to which the latest published audited accounts of the Company were made up, acquired or disposed of by, or leased to the Company or any of its subsidiaries, or are proposed to be acquired or disposed of by, or leased to the Company or any of its subsidiaries.

### **EMPLOYMENT AND REMUNERATION POLICIES**

As at 31st December, 2011, the Group employed approximately 10 employees. The Remuneration Committee and the Directors of the Group reviewed remuneration policies regularly. The structure of the remuneration packages would take into account the level and composition of pay and the general market conditions in the respective countries and businesses.

### **DIRECTORS' RIGHTS TO ACQUIRE SHARES**

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the Period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them, or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

### **SHARE OPTION SCHEME**

Pursuant to the ordinary resolution passed at the annual general meeting of the Company held on 29th January, 2008, the Company adopted the share option scheme.

Up to 31 December, 2011 there were 48,400,000 share options granted. 15,520,000 option has been exercised during the prior period. 7,800,000 option has been cancelled or lapsed during the prior period. Details of which were as follows:

## Number of shares under option

Director	Beginning of period	Granted during the period	Exercised during the period	End of period	Subscription price per share	Date of grant of share options	Vesting and exercisable period
Mr. Law Wai Fai	600,000	-	-	600,000	1.25	5th February, 2008	5th February, 2008 to 4th February, 2018
	600,000	-	-	600,000	0.80	7th September, 2009	7th September, 2009 to 6th September, 2019
Sub-total	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>1,200,000</u>			
Mr. Lo Wan Sing, Vincent	-	-	-	-			
	1,400,000	-	-	1,400,000	0.80	7th September, 2009	7th September, 2009 to 6th September, 2019
Mr. Chau On Ta Yuen	600,000	-	-	600,000	1.25	5th February, 2008	5th February, 2008 to 4th February, 2018
	300,000	-	-	300,000	0.80	7th September, 2009	7th September, 2009 to 6th September, 2019
Sub-total	<u>900,000</u>	<u>-</u>	<u>-</u>	<u>900,000</u>			
Employees/ Non-Directors	8,400,000	-	-	8,400,000	1.11	31st January, 2008	31st January, 2008 to 30th January, 2018,
Non-Director (Note)	5,900,000	-	-	5,900,000	1.25	5th February, 2008	5th February, 2008 to 4th February, 2018
	-	-	-	-			
Non-Director	5,600,000	-	-	5,600,000	1.27	6th February, 2008	6th February, 2008 to 5th February, 2008
Employees/ Non-Directors	1,680,000	-	-	1,680,000	0.80	7th September, 2009	7th September, 2009 to 6th September, 2019
	<u>2,580,000</u>	<u>-</u>	<u>-</u>	<u>2,580,000</u>			
Total	<u>25,080,000</u>	<u>-</u>	<u>-</u>	<u>25,080,000</u>			

Note: Interest held by Ho Kam Hung, ex-Director of the Company from 20 November 2007 to 1 March 2011.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31st December, 2011

## **AUDIT COMMITTEE**

The Company formulated written terms of reference for the Audit Committee in accordance with the requirements of the Stock Exchange. The Audit Committee comprises the three independent non-executive Directors of the Company, Mr. Law Wai Fai, Mr. Chau On Ta Yuen and Ms. Xu Lei. The primary duties of the Audit Committee are to review the Company's annual and interim results and to review and supervise the Company's financial reporting and internal control procedures.

The Audit Committee has reviewed the accounting principles and practices adopted by the Company and discussed the auditing, internal controls and financial reporting matters, including review of the unaudited interim financial statements of the Group for the Period.

## **CORPORATE GOVERNANCE**

In the opinion of the Directors, the Company has complied throughout the six months ended 31st December, 2011 with the Code on Corporate Governance Practices (the "Code") as set out by the Stock Exchange in Appendix 14 to the Listing Rules during the six months ended 31st December, 2011.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 ("Model Code") to Listing Rules during the period under review. The Company has made specific enquiry with all Directors and all of them confirmed that they have complied with the required standard set out in the Model Code for the period ended 31st December, 2011

**APPRECIATION**

On behalf of the Board, I would like to thank all of our customers, shareholders, suppliers and employees for their continued support.

List of all Directors of the Company as of the date of this report:

*Executive Directors:*

Mr. Ng Leung Ho (*Chairman*)  
Mr. Lo Wan Sing, Vincent (*Vice-Chairman*  
and *Managing Director*)

*Independent Non-Executive Directors:*

Mr. Chau On Ta Yuen  
Mr. Law Wai Fai  
Ms. Xu Lei

On behalf of the Board

**Ng Leung Ho**  
*Chairman*

Hong Kong, 27th February, 2012