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**ZHONG FA ZHAN HOLDINGS LIMITED**

**中發展控股有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 475)**

**ANNOUNCEMENT OF INTERIM RESULTS  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013**

The board (the “Board”) of directors (the “Directors”) of Zhong Fa Zhan Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (“Zhong Fa Zhan” or the “Group”) for the six months ended 30 September 2013, which have been reviewed by the Company’s audit committee and external auditor, together with the comparative figures for the corresponding previous period as follows:

**CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2013**

		<b>Six months ended</b>	
		<b>30 September</b>	
	<i>NOTES</i>	<b>2013</b>	2012
		<b>HK\$'000</b>	HK\$'000
		<b>(unaudited)</b>	(unaudited)
Revenue	3	<b>41,177</b>	38,428
Cost of sales		<b>(36,924)</b>	(35,898)
Gross profit		<b>4,253</b>	2,530
Other income		<b>103</b>	846
Other gains and losses	4	<b>485</b>	81
Distribution costs		<b>(2,698)</b>	(3,757)
Administrative expenses		<b>(9,570)</b>	(21,897)
Finance costs	5	<b>(8)</b>	(13)

		<b>Six months ended</b>	
		<b>30 September</b>	
		<b>2013</b>	2012
	<i>NOTES</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
		<b>(unaudited)</b>	(unaudited)
Loss before taxation		<b>(7,435)</b>	(22,210)
Income tax credit	6	<b>198</b>	–
Loss for the period	7	<b>(7,237)</b>	(22,210)
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
Exchange differences arising on translation		<b>210</b>	(389)
Total comprehensive expense for the period		<b><u>(7,027)</u></b>	<u>(22,599)</u>
Loss per share	8		
Basic and diluted		<b><u>HK(2.65) cents</u></b>	<u>HK(8.12) cents</u>

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
**AT 30 SEPTEMBER 2013**

	<i>NOTES</i>	At 30 September 2013 <i>HK\$'000</i> (unaudited)	At 31 March 2013 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment	<i>10</i>	3,817	12,583
Rental deposits		499	499
		<u>4,316</u>	<u>13,082</u>
Current assets			
Inventories		13,136	19,039
Trade receivables	<i>11</i>	22,604	10,076
Deposits, prepayments and other receivables		469	2,817
Bank balances and cash		18,172	7,552
		<u>54,381</u>	<u>39,484</u>
Current liabilities			
Trade payables	<i>12</i>	11,552	13,409
Other payables and accruals		6,571	2,314
Loan from a controlling shareholder	<i>13</i>	10,956	–
		<u>29,079</u>	<u>15,723</u>
Net current assets		<u>25,302</u>	<u>23,761</u>
Total assets less current liabilities		<u>29,618</u>	<u>36,843</u>
Capital and reserves			
Share capital	<i>14</i>	2,736	2,736
Share premium and reserves		26,882	33,909
Equity attributable to owners of the Company		29,618	36,645
Non-current liabilities			
Deferred tax liabilities		–	198
		<u>29,618</u>	<u>36,843</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”) as well as with 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.

### 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2013 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2013.

In addition, in the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated financial statements, joint arrangements and disclosure of interests in other entities: Transition guidance
HKFRS 13	Fair value measurement
HKAS 19 (as revised in 2011)	Employee benefits
HKAS 28 (as revised in 2011)	Investments in associates and joint ventures
Amendments to HKFRS 7	Disclosures - Offsetting financial assets and financial liabilities
Amendments to HKAS 1	Presentation of items of other comprehensive income
Amendments to HKFRSs	Annual improvements to HKFRSs 2009 - 2011 cycle, except for the amendments HKAS 1
HK(IFRIC) - INT 20	Stripping costs in the production phase of a surface mine

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

### 3. REVENUE AND SEGMENT INFORMATION

#### Revenue

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

#### Segmental information

The Group's revenue and result is solely derived from a single business operation of jewelry manufacturing and wholesale business in the People Republic of China (the "PRC")(the "Wholesale Business"). The financial information for the Wholesale Business as a whole is regularly reviewed by the executive directors of the Company and used for the purposes of assessment of performance and resource allocation. Accordingly, the Wholesale Business as a whole constitute the sole operating segment for the purpose of segment information presentation under HKFRS 8. Accordingly, no segment information was disclosed.

### 4. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Gain on disposal of property, plant and equipment	419	–
Net foreign exchange gain	66	81
	<u>485</u>	<u>81</u>

### 5. FINANCE COSTS

	Six months ended 30 September	
	2013	2012
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Bank charges	<u>8</u>	<u>13</u>

### 6. INCOME TAX CREDIT

This income tax credit for current interim period represented the release of deferred tax liability upon disposal of leasehold land and building.

No provision for Hong Kong Profits Tax has been made as there were no assessable profits generated in Hong Kong for both periods.

No provision for PRC Enterprise Income Tax has been made for the Group's PRC subsidiary as the PRC subsidiary has no assessable profits for both periods.

## 7. LOSS FOR THE PERIOD

Loss for the period has been arrived at after charging:

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
	<b>(unaudited)</b>	(unaudited)
Cost of inventories recognised as expense	<b>36,924</b>	35,898
Depreciation of property, plant and equipment	<b>372</b>	140
Staff cost (including directors' remuneration)	<b>7,182</b>	5,336
Share-based payments (included in administrative expenses)	<b>–</b>	16,381
Auditor's remuneration	<b>120</b>	120
	<b><u>          </u></b>	<b><u>          </u></b>

## 8. LOSS PER SHARE

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

	<b>Six months ended</b>	
	<b>30 September</b>	
	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
The Group's loss for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share calculation	<b><u>(7,237)</u></b>	<b><u>(22,210)</u></b>
	<b>'000</b>	<b>'000</b>
Weighted average number of ordinary shares for the purposes of basic and diluted loss per share	<b><u>273,610</u></b>	<b><u>273,610</u></b>

The computation of diluted loss per share for the six months ended 30 September 2013 and 30 September 2012 does not assume the exercise of the Company's outstanding share options as their exercise would result in a decrease in loss per share.

## 9. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors have determined that no dividend will be paid in respect of the current interim period (2012: nil).

## 10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group disposed of a property with carrying amount of approximately RMB9.1 million (equivalent to HK\$11.6 million) for net cash proceeds of RMB9.4 million (equivalent to HK\$12 million), resulting in a gain on disposal of RMB329,000 (equivalent to HK\$419,000).

In addition, during the current interim period, the Group paid approximately HK\$3,038,000 for decoration and purchases of furniture, fixture and equipment for a new office premise and a motor vehicle.

## 11. TRADE RECEIVABLES

The credit terms granted by the Group to its customers normally range from nil to 180 days.

The following is an analysis of the Group's trade receivables by age, presented based on the invoice date, net of allowance for doubtful debts.

	<b>At 30 September 2013 HK\$'000 (unaudited)</b>	<b>At 31 March 2013 HK\$'000 (audited)</b>
Within 1 month	11,127	4,103
Over 1 month but within 3 months	10,536	4,077
Over 3 months but within 6 months	863	1,828
Over 6 months	78	68
	<hr/> <b>22,604</b> <hr/>	<hr/> <b>10,076</b> <hr/>

## 12. TRADE PAYABLES

The following is an analysis of the Group's trade payables by age, presented based on the invoice date.

	<b>At 30 September 2013 HK\$'000 (unaudited)</b>	<b>At 31 March 2013 HK\$'000 (audited)</b>
Within 1 month	1,960	1,974
Over 1 month but within 3 months	7,406	7,177
Over 3 months but within 6 months	2,186	4,192
Over 6 months	–	66
	<hr/> <b>11,552</b> <hr/>	<hr/> <b>13,409</b> <hr/>

### 13. LOAN FROM A CONTROLLING SHAREHOLDER

The loan is unsecured, interest-free and repayable on demand.

### 14. SHARE CAPITAL

	Number of shares '000	Amount HK\$'000
Ordinary shares with nominal value of HK\$0.01 each		
Authorised		
As at 31 March 2013 and 30 September 2013	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2012 (audited), 31 March 2013 (audited) and 30 September 2013 (unaudited)	<u>273,610</u>	<u>2,736</u>

### 15. SHARE-BASED PAYMENTS

The Company's share option scheme was adopted pursuant to a resolution passed on 26 February 2007 for the primary purpose of providing incentives to directors, employees and other eligible participants.

In the prior interim period, 24,090,000 share options were granted on 27 June 2012. The options granted were all vested at the date of grant and exercisable during the period from 27 June 2012 to 30 December 2016. The fair value of the options determined at the date of grant using the Binomial model was approximately HK\$16,381,000.

The table below discloses movement of the Company's share options held by the directors, employees and other eligible participants:

	Number of share options
Outstanding as at 1 April 2013	24,090,000
Forfeited during the period	<u>(50,000)</u>
Outstanding as at 30 September 2013	<u>24,040,000</u>

No options were granted or exercised during the current interim period.



## 16. OPERATING LEASES COMMITMENTS

### As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	<b>At 30 September 2013 HK\$'000 (unaudited)</b>	At 31 March 2013 HK\$'000 (audited)
Within one year	1,875	1,961
In the second to fifth year	2,483	3,475
Later than five year	265	319
	<u>4,623</u>	<u>5,755</u>

## 17. RELATED PARTY TRANSACTIONS

Apart from the loan from a controlling shareholder as disclosed in note 13, the Group had entered into the following related party transactions during the period:

### Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	<b>Six months ended 30 September 2013 HK\$'000 (unaudited)</b>	2012 HK\$'000 (unaudited)
Short-term employee benefits	2,657	1,974
Post-employment benefit	72	14
Share-based payments	–	10,057
	<u>2,729</u>	<u>12,045</u>

Other than as disclosed above, there was no material related party transactions during the current interim period.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Operating Results

The Group was reporting a mild revenue growth for the six months ended 30 September 2013 (the “Review Period”). The sales turnover of the Group increased by 7.3% from HK\$38.4 million to HK\$41.2 million for the Review Period. The gross profit grew significantly by 72.0% from HK\$2.5 million to HK\$4.3 million with gross profit margin improved to 10.4% during the Review Period as compared to 6.5% of last reporting period.

Despite the increased gross profit, the Group recorded a net loss of HK\$7.2 million for the six months ended 30 September 2013 (2012: net loss of HK\$22.2 million). Basic loss per share were 2.7 HK cents (2012: basic loss per share were 8.1 HK cents). Given the fact that the one-off expense of HK\$16.4 million resulted from the issuance of share options of the Company during the last reporting period in 2012 did not recur during the Review Period, the Group have indeed incurred extra loss from HK\$5.8 million to HK\$7.2 million from its daily operations as compared to the last reporting period.

### Business Review

Although the demand for jewelry by the Group’s customers in the PRC remained stable during the Review Period, the Group continued to operate in a challenging environment as the growing operating costs put increasing pressure on the Group. Despite the Group was able to record a sales turnover of HK\$41.2 million, representing a slight increase from the last reporting period of HK\$38.4 million, its operating loss (excluding share-based payments) was up by 24.1%, which directly indicated that the competition in business was increasingly intense and indirect cost has kept rising. To better control its operating cost, the Group adopted a more prudent policy for inventory and implemented stringent measures for cost control, including outsourcing the production process, aiming to steer away from the unpredictability in the labour market and at the same time laying a solid foundation for operating cost.

## **Future Prospects**

As the US government continues monetary easing policy and the global economic environment is still volatile, the development of fine jewelry market remains uncertain. We maintain a cautious, “wait and see” position as to the prospective demand in fine jewelry products in the PRC, notwithstanding the continuous appreciation in Renminbi and the increasingly affluent population there. On the other hand, increasingly intense competition in the jewelry industry will inevitably contract the Group’s profit margin. As such, we will further outsource our production process, with view to minimise the negative impact of the unpredictable labour market to the largest extent. The Group will adhere to its policy of prudence and optimize our resource allocation under the business model of caution, so as to strengthen our business fundamentals for our business operation in China.

The Group will also closely monitor and review our business operations and financial position for the purposes of formulating business plans and strategies for the future business development of the Group. Should suitable investment or business opportunity arise, the Group may consider diversifying the business of the Group in order to broaden its sources of income.

## **Liquidity and Financial Resources**

As at 30 September 2013, the Group’s net current assets and current ratio stood at HK\$25.3 million and 1.9 respectively (31 March 2013: HK\$23.8 million and 2.5 respectively). Net gearing ratio (total interest bearing borrowings net of bank balances and cash as a percentage of total equity) was nil as at 30 September 2013 (31 March 2013: Nil).

As at 30 September 2013, the Group had no bank borrowings (31 March 2013: Nil) and no banking facilities (31 March 2013: Nil). As at 30 September 2013, the Group’s bank balances and cash amounted to HK\$18.2 million (31 March 2013: HK\$7.6 million).

## **Charges on Group Assets**

As at 30 September 2013, the Group did not have any charges on the Group’s assets (31 March 2013: Nil).

## **Capital Structure**

For the six months ended 30 September 2013, the Group financed its liquidity requirements through cash flow as generated from operation and loan from a controlling shareholder.

## **Dividend**

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 September 2013.

## **Capital Commitment and Contingent Liabilities**

As at 30 September 2013, the Group did not have any capital commitments (31 March 2013: Nil) and had HK\$4.6 million of operating lease commitments (31 March 2013: HK\$5.8 million). As at 30 September 2013, the Group did not have any significant contingent liabilities (31 March 2013: Nil).

## **Staff and Remuneration Policy**

As at 30 September 2013, the Group had a total of 62 employees (31 March 2013: 62). Staff costs for the Review Period was HK\$7.2 million, representing an increase of 35.8% as compared to the corresponding period ended 30 September 2012 of HK\$5.3 million. The Group remunerates its employees based on their performance and work experience and the prevailing market rates. Salaries of employees are maintained at competitive levels while bonuses are granted by reference to the performance of the Group and individual employees.

The Group also provides internal training to its employees when necessary and other benefits including share option scheme and contribution to statutory mandatory provident fund scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

## **Foreign Exchange Fluctuation and Hedges**

Currently, the Group was principally based in the PRC and was not significantly exposed to foreign exchange risk. Foreign exchange risk arises from future commercial transaction and recognized assets and liabilities. While the Group would closely monitor the volatility of the Renminbi (“RMB”) exchange rate, the Directors considered that the Group’s risk exposure to foreign exchange rate fluctuation remained minimal currently.

As at 30 September 2013, no forward foreign currency contracts are designated in hedging accounting relationships (31 March 2013: Nil).

## **CORPORATE GOVERNANCE PRACTICES**

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Listing Rules on the Stock Exchange of Hong Kong Limited. The Company has applied the principles and complied with all the applicable code provisions set out in the Code throughout the six months ended 30 September 2013.

## **MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2013.

## **AUDIT COMMITTEE AND INDEPENDENT REVIEW BY EXTERNAL AUDITOR**

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code set out in Appendix 14 to the Listing Rules. The audit committee comprises three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha. The Group’s unaudited interim results for the six months ended 30 September 2013 have been reviewed by the audit committee at an audit committee meeting held on 20 November 2013.

The Group’s external auditor, Deloitte Touche Tohmatsu, has been appointed to review the interim financial information. On the basis of their review, they are not aware of any material modifications that should be made to the interim financial information for the six months ended 30 September 2013.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SHARES**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company’s listed Shares during the six months ended 30 September 2013.

## **DISPOSAL OF PROPERTY**

Guangzhou Sinoble Jewelry Limited\* (廣州億恒珠寶有限公司), an indirect wholly-owned subsidiary of the Company established in the PRC, entered into an agreement with Guangzhou Jin Ye Jewelry Limited\* (廣州晉業珠寶有限公司) on 21 August 2013 to dispose of a dormitory unit situated at Block 46, 999 Fulong Road, Shawan Town, Panyu District, Guangzhou City, the PRC (廣州市番禺區沙灣鎮福龍路999號46座) (the “Property”) at a consideration of RMB9.6 million. The Property had a carrying amount of approximately RMB9.1 million and was disposed of for net cash proceeds of RMB9.4 million, resulting in a gain on disposal of RMB329,000.

\* *For identification purposes only*

## **APPOINTMENT OF DIRECTOR**

Ms. Kwong Wai Man, Karina has been appointed as an executive Director with effect from 1 September 2013.

By order of the Board  
**ZHONG FA ZHAN HOLDINGS LIMITED**  
**Chan Wing Yuen, Hubert**  
*Chief Executive & Executive Director*

Hong Kong, 22 November 2013

*As at the date of this announcement, the Board consists of five executive Directors, namely Mr. Wu Hao, Mr. Hu Yangjun, Mr. Hu Yishi, Mr. Chan Wing Yuen, Hubert and Ms. Kwong Wai Man, Karina; a non-executive Director, namely Mr. Li Wei Qi, Jacky; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha.*