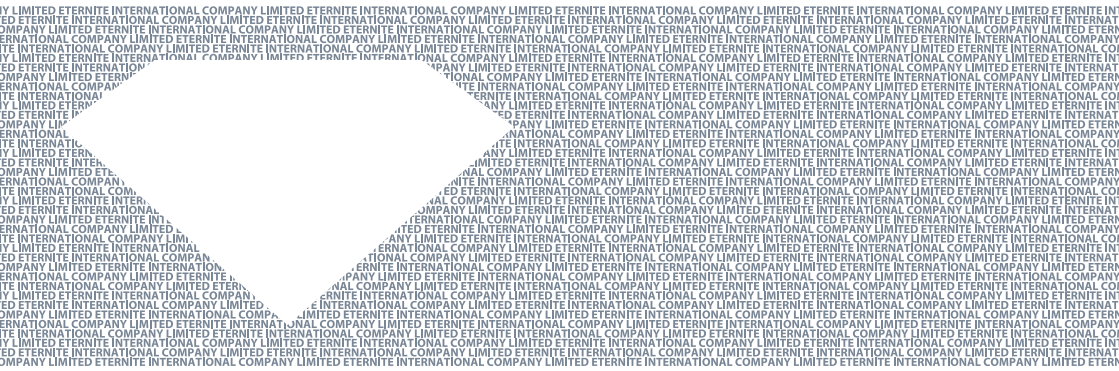


# ETERNITE

INTERNATIONAL COMPANY LIMITED

(incorporated in Bermuda with limited liability)

Stock Code: 8351



## Interim Report 2011

\* For identification purpose only

## **CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)**

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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*This report, for which the directors of Eternite International Company Limited (the “Directors”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on GEM of the Stock Exchange (the “GEM Listing Rules”) for the purpose of giving information with regard to Eternite International Company Limited. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief the information contained in this report is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein this report misleading.*

The board of directors (the “Board”) of Eternite International Company Limited (the “Company”) is pleased to present the unaudited condensed consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the three months and six months ended 30 September 2011 together with the unaudited comparative figures for the corresponding period in 2010 as follows:

### CONDENSED CONSOLIDATED INCOME STATEMENT (UNAUDITED)

*For the three months and six months ended 30 September 2011*

	Notes	Three months ended 30 September		Six months ended 30 September	
		2011 HK\$'000	2010 HK\$'000	2011 HK\$'000	2010 HK\$'000
<b>Revenue</b>	3	<b>54,438</b>	13,385	<b>60,258</b>	22,683
Cost of sales		<b>(45,574)</b>	(8,952)	<b>(48,644)</b>	(15,034)
<b>Gross profit</b>		<b>8,864</b>	4,433	<b>11,614</b>	7,649
Other income	3	<b>184</b>	422	<b>208</b>	436
Distribution costs		<b>(11,041)</b>	(1,157)	<b>(11,673)</b>	(2,013)
Administrative expenses		<b>(27,220)</b>	(2,049)	<b>(35,198)</b>	(5,122)
Change of fair value on financial assets at fair value through profit or loss		<b>(726)</b>	–	<b>(726)</b>	–
<b>Operating (loss)/profit</b>		<b>(29,939)</b>	1,649	<b>(35,775)</b>	950
Finance costs	5	<b>(8,239)</b>	(6)	<b>(8,239)</b>	(6)
<b>(Loss)/Profit before income tax</b>	6	<b>(38,178)</b>	1,643	<b>(44,014)</b>	944
Income tax credit/(expense)	7	<b>1,010</b>	(476)	<b>971</b>	(622)
<b>(Loss)/Profit for the period attributable to the owners of the Company</b>		<b>(37,168)</b>	1,167	<b>(43,043)</b>	322
<b>(Loss)/Earnings per share</b>					
– Basic (HK cents)	9	<b>(5.29)</b>	0.21	<b>(6.12)</b>	0.06
– Diluted (HK cents)		<b>N/A</b>	N/A	<b>N/A</b>	N/A



## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 September 2011

	<i>Notes</i>	As at 30 September 2011 (Unaudited) HK\$'000	As at 31 March 2011 (Audited) HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	8,878	1,981
Goodwill		44,900	–
Intangible assets		79,000	–
		<b>132,778</b>	<b>1,981</b>
<b>Current assets</b>			
Inventories	11	322,695	29,588
Trade receivables	12	6,042	11,177
Prepayments, deposits and other receivables		22,974	11,046
Tax recoverable		2,370	622
Financial assets at fair value through profit or loss		2,903	–
Bank time deposits		–	1,693
Bank and cash balances		165,598	64,705
		<b>522,582</b>	<b>118,831</b>
<b>Current liabilities</b>			
Trade payables	13	28,151	2,835
Other payables and accruals		60,961	1,661
Borrowings	14	300,329	–
Provision for tax		5,195	–
		<b>394,636</b>	<b>4,496</b>
<b>Net current assets</b>		<b>127,946</b>	<b>114,335</b>
<b>Total assets less current liabilities</b>		<b>260,724</b>	<b>116,316</b>

	<i>Notes</i>	<b>As at 30 September 2011 (Unaudited) HK\$'000</b>	<b>As at 31 March 2011 (Audited) HK\$'000</b>
<b>Non-current liabilities</b>			
Convertible notes	15	42,935	–
Deferred taxation		18,035	–
		<b>60,970</b>	–
Net assets		<b>199,754</b>	116,316
<b>EQUITY</b>			
<b>Equity attributable to the owners of the Company</b>			
Share capital	16	8,305	6,700
Reserves		191,449	109,616
<b>Total equity</b>		<b>199,754</b>	116,316

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (UNAUDITED)

For the six months ended 30 September 2011

	Share capital	Share premium	Capital contribution reserve	Share option reserve	Convertible notes equity reserve	Merger reserve	Translation Reserve	Accumulated loss	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 31 March 2011 and 1 April 2011	6,700	97,901	3,988	13,450	-	(830)	-	(4,893)	116,316
Issue of shares	1,605	113,648	-	-	-	-	-	-	115,253
Share issue expenses	-	(481)	-	-	-	-	-	-	(481)
Recognition of equity-settled share-based payments	-	(400)	-	800	-	-	-	-	400
Forfeiture of share options	-	-	-	(5,260)	-	-	-	5,260	-
Issue of convertible notes	-	-	-	-	17,634	-	-	-	17,634
Total comprehensive income for the period	-	-	-	-	-	-	(6,325)	(43,043)	(49,368)
Balance as at 30 September 2011	8,305	210,668	3,988	8,990	17,634	(830)	(6,325)	(42,676)	199,754
Balance as at 31 March 2010 and 1 April 2010	4,800	31,508	-	-	-	(830)	-	14,469	49,947
Issue of shares	720	19,440	-	-	-	-	-	-	20,160
Total comprehensive income for the period	-	-	-	-	-	-	-	322	322
Balance as at 30 September 2010	5,520	50,948	-	-	-	(830)	-	14,791	70,429





## NOTES TO THE UNAUDITED CONDENSED CONSOLIDATED INTERIM RESULTS

### 1. GENERAL INFORMATION

Eternite International Company Limited (the “Company”) was incorporate in Bermuda with limited liability on 11 June 2009. The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The principal place of business of the Company is located at Units 01-02, 5th Floor, Soundwill Plaza, 38 Russell Street, Causeway Bay, Hong Kong. The Company’s shares have been listed on the GEM of the Stock Exchange since 7 October 2009.

The Company’s principal activity has not changed during the period and consisted of investment holding. The principal activity of its subsidiaries (together with the Company referred to as the “Group”) are principally engaged in designing, sale and retailing of a broad range of fine jewelry products and trading of diamond.

### 2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial information for the six months ended 30 September 2011 has 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”). The unaudited condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2011, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA. The unaudited condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair value as appropriate.

The principal accounting policies used in the preparation of these unaudited condensed consolidated interim financial statements for the six months ended 30 September 2011 are consistent with those used in the annual audited financial statements for the year ended 31 March 2011, except for the new and revised standards, amendments and interpretations (“new and revised HKFRSs”) issued by HKICPA that are adopted for the first time for the current financial statements. The adoption of these new and revised HKFRSs has had no material impact on the Group’s financial statements. The Group has not early adopted any new HKFRSs that have been issued but are not yet effective.

### 3. REVENUE AND OTHER INCOME

Revenue, which is also the Group's turnover, represents total invoiced value of goods sold in the course of the Group's principal activities, net of returns and trade discounts. Revenue and other income recognised during the periods are as follows:

	Three months ended 30 September		Six months ended 30 September	
	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000	2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
<b>Revenue</b>				
Sales	54,438	13,385	60,258	22,683
<b>Other income</b>				
Interest income	4	2	13	5
Management fee income	156	–	156	–
Sundry income	24	420	39	431
	184	422	208	436

### 4. SEGMENT INFORMATION

The Group has adopted HKFRS 8 “Operating Segments” with effect from 1 April 2009. HKFRS 8 is a disclosure standard that requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the “CODM”) for the purpose of allocating resources to segments and assessing their performance. In contrast, the predecessor standard (HKAS 14 “Segment Reporting”) required an entity to identify two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was business segments. Under HKAS 14, the directors of the Company considered that there was only one business segment, being the design and sale of jewelry products. The application of HKFRS 8 has not resulted in a redesignation of the Group's operating segments as compared with the primary reportable segments determined in accordance with HKAS 14. Nor has the adoption of HKFRS 8 changed the basis of measurement of segment revenue, profit or loss and assets.

Under HKFRS 8, reported segment information is based on internal management reporting information that is regularly reviewed by the executive directors, being the CODM of the Group. There is only one business component in the internal reporting to the executive directors.

The total presented for the Group's operating segment reconcile to the Group's key financial figures as presented in the Interim Accounts as follows:

	2011			
	Design and Trading of Jewelry Products segment <i>HK\$'000</i>	Retailing of Jewelry Products segment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	9,669	50,589	–	60,258
Segment loss before income tax	(7,988)	(9,987)	(26,039)	(44,014)
Segment assets	104,965	405,149	145,246	655,360
Segment liabilities	10,581	50,727	394,298	455,606

	2010			
	Design and Trading of Jewelry Products segment <i>HK\$'000</i>	Retailing of Jewelry Products segment <i>HK\$'000</i>	Unallocated <i>HK\$'000</i>	Total <i>HK\$'000</i>
Segment revenue	22,683	–	–	22,683
Segment profit before income tax	1,702	–	(758)	944
Segment assets	87,727	–	660	88,387
Segment liabilities	17,958	–	–	17,958

All of the segment revenue reported above is from external customers.

The Group's revenue from external customers is divided into the following geographical areas:

	<b>Six months ended 30 September</b>	
	<b>2011 (unaudited) HK\$'000</b>	2010 (unaudited) HK\$'000
Greater China (include Hong Kong and Macau)	31,896	5,108
Southeast Asia	24,357	244
Europe	3,510	14,576
The United States of America and Canada	459	987
Rest of Asia	36	669
Australia	–	111
The Middle East	–	988
	<b>60,258</b>	22,683

The geographical location of customers is based on the location at which the goods were delivered.

Based on the physical location of the asset, all non-current assets are located in Hong Kong.

During the period under review, there was no revenue from external customers attributed to Bermuda (domicile) and no non-current assets were located in Bermuda (2010: Nil). The country of domicile is the country where the Company was incorporated.

## 5. FINANCE COSTS

	<b>Three months ended 30 September</b>		<b>Six months ended 30 September</b>	
	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000	<b>2011 (Unaudited) HK\$'000</b>	2010 (Unaudited) HK\$'000
Interest on bank borrowings	–	6	–	6
Imputed interest on convertible notes	1,763	–	1,763	–
Imputed interest on promissory notes	1,268	–	1,268	–
Interest on other loans	5,208	–	5,208	–

**6. (LOSS)/PROFIT BEFORE INCOME TAX**

The Group's (loss)/profit before income tax is arrived at after charging the following:

	<b>Three months ended 30 September</b>		<b>Six months ended 30 September</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
(Loss)/profit before income tax is arrived at after charging:				
Auditors' remuneration	<b>107</b>	90	<b>207</b>	181
Cost of inventories recognised as expense, including	<b>45,574</b>	9,790	<b>48,644</b>	15,202
– Write-down of inventories to net realisable value	–	1,479	–	1,479
Depreciation	<b>568</b>	113	<b>715</b>	192
Employee benefit expense (including directors' remuneration)	<b>8,052</b>	992	<b>9,720</b>	1,760
Exchange loss, net	<b>1,808</b>	–	<b>1,616</b>	377
Operating lease rentals in respect of rented premises	<b>10,473</b>	260	<b>12,069</b>	562

**7. INCOME TAX (CREDIT)/EXPENSE**

	<b>Three months ended 30 September</b>		<b>Six months ended 30 September</b>	
	<b>2011</b>	2010	<b>2011</b>	2010
	<b>(Unaudited)</b>	(Unaudited)	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000	<b>HK\$'000</b>	HK\$'000
Current income tax – Hong Kong	<b>(1,010)</b>	476	<b>(971)</b>	622

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the three months and six months ended 30 September 2011 and 2010.

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Company and its subsidiary, Full Join Limited are not subject to any income tax in Bermuda and the BVI respectively.

No deferred tax has been provided as the Group did not have any material temporary differences which gave rise to a deferred tax asset or liability for the periods.

**8. DIVIDENDS**

The Board does not recommend the payment of an interim dividend for the six months ended 30 September 2011 and 2010.

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

The adjusted loss attributable to the owners of the Company is calculated based on the loss attributable to the owners of the Company for the three months and six months ended 30 September 2011 of HK\$37,168,000 (2010: profit of HK\$1,167,000) and HK\$43,043,000 (2010: profit of HK\$322,000) as used in the calculation of basic (loss)/earnings per share.

The weighted average number of shares used in the calculation of basic loss per share is calculated based on the weighted average of 702,838,000 (2010: 544,131,000) ordinary shares in issue during the period.

Diluted (loss)/earnings per share for the six months ended 30 September 2011 and 2010 were not presented as there was no potential ordinary share.

Diluted (loss)/earnings per share for the three months and six months ended 30 September 2011 and the corresponding periods in 2010 are not disclosed as no dilutive events existed during those periods.

**10. PROPERTY, PLANT AND EQUIPMENT**

During the period under review, the Group spent approximately HK\$3,646,000 (six months ended 30 September 2010: approximately HK\$1,104,000) on acquisition of property, plant and equipment, and acquired approximately HK\$5,509,000 of property, plant and equipment through acquisition of subsidiaries.

**11. INVENTORIES**

	As at 30 September 2011 (Unaudited) <i>HK\$'000</i>	As at 31 March 2011 (Audited) <i>HK\$'000</i>
Raw materials	56,349	16,532
Work in progress	14,058	1,961
Finished goods	252,288	11,095
	<b>322,695</b>	29,588

As at 30 September 2011, the inventories included an upward fair value adjustment of approximately HK\$36,047,000 for the inventories acquired through acquisition of subsidiaries which were revalued on the acquisition date to reflect the fair market value (31 March 2011: Nil).

**12. TRADE RECEIVABLES**

Ageing analysis of the Group's trade receivables as at the reporting dates based on the invoice dates is as follows:

	<b>As at 30 September 2011 (Unaudited) HK\$'000</b>	As at 31 March 2011 (Audited) HK\$'000
Within 30 days	992	1,722
31 – 60 days	1,152	209
61 – 90 days	443	957
91 – 180 days	1,322	4,822
181 – 365 days	2,133	1,339
Over 1 year	–	2,128
	<b>6,042</b>	11,177

**13. TRADE PAYABLES**

Ageing analysis of the Group's trade payables as at the reporting dates based on the invoice dates is as follows:

	<b>As at 30 September 2011 (Unaudited) HK\$'000</b>	As at 31 March 2011 (Audited) HK\$'000
Within 30 days	22,735	196
31 – 60 days	2,725	676
61 – 90 days	1,643	1,112
91 – 180 days	1,048	851
	<b>28,151</b>	2,835

## 14. BORROWINGS

	As at 30 September 2011 HK\$'000 (Unaudited)	As at 31 March 2011 HK\$'000 (Audited)
Other loans (i)	150,000	–
Promissory notes (ii)	150,329	–
	<b>300,329</b>	–

- (i) On 4 July 2011 and 12 July 2011, the Company entered into two loan agreements with a financial institution to borrow of HK\$125,000,000 and HK\$25,000,000, which are repayable on or before 13 July 2012 and 13 January 2012 respectively.
- (ii) On 19 July 2011, an aggregate principal amount of HK\$150,000,000 of the promissory notes were issued, which bears interest at the rate of 3.5% per annum. HK\$50,000,000 will be due on 19 January 2012 and the balance of HK\$100,000,000 will be due on 19 July 2012.

## 15. CONVERTIBLE NOTES

	<i>HK\$'000</i>
At 1 April 2010 and 31 March 2011	–
Fair value of issue of convertible notes	56,503
Issuance expenses	(1,326)
Asset component	3,629
Equity component	(17,634)
	<hr/>
Liability component at date of issue	41,172
Interest expenses	1,763
	<hr/>
Liability component at 30 September 2011	42,935

*Note:* None of the convertible notes issued by the Company were converted into shares of the Company during the six months ended 30 September 2011.

- (i) On 11 July 2011, an aggregate principal amount of HK\$54,000,000 of the convertible notes were issued to places with the conversion price of HK\$1.50 per conversion share, which bear interest at the rate of 2% per annum and will be redeemed by the Company on 11 July 2014 at 120% of its principal amount.



- (ii) On 8 September 2011, an aggregate principal amount of HK\$2,000,000 of the convertible notes were issued with the conversion price of HK\$1.00 per conversion share, which do not bear any interest and will be redeemed by the Company on 8 September 2014 at 100% of its principal amount.

## 16. SHARE CAPITAL

	Number of shares	HK\$'000
Authorised:		
At 1 April 2011 and 30 September 2011, ordinary shares of HK\$0.01 each	10,000,000,000	100,000
Issued and fully paid:		
At 1 April 2011, ordinary shares of HK\$0.01 each	669,950,000	6,700
Issue of shares ( <i>notes</i> )	160,500,000	1,605
At 30 September 2011, ordinary share of HK\$0.01 each	830,450,000	8,305

### *Notes:*

- (i) On 9 March 2011, the Company entered into a subscription agreement with subscribers for the subscription of an aggregate 26,000,000 new shares of the Company at a subscription price of HK\$0.553 per subscription share. As a result, the Company issued 26,000,000 new ordinary shares at HK\$0.553 per share on 29 April 2011.
- (ii) On 19 August 2011, Fullink Management Limited ("Fullink"), the Company and the placing agent entered into a placing agreement, pursuant to which the placing agent agreed, on a best effort basis, to procure, as agent for Fullink, places for the placing shares and Fullink agreed to subscribe for the top-up subscription shares at the placing price of HK\$0.75 per placing share and the top-up subscription price of HK\$0.75 per top-up subscription share. As a result, the Company issued 61,800,000 new ordinary shares at HK\$0.75 per share on 31 August 2011.
- (iii) On 19 August 2011, the Company also entered into a subscription agreement with subscribers for the subscription of an aggregate 72,700,000 new shares of the Company at a subscription price of HK\$0.75 per subscription share. As a result, the Company issued 72,700,000 new ordinary shares at HK\$0.553 per share on 30 September 2011.

**17. LEASE AND CONTRACTED COMMITMENTS**

The Group leases office premises and a retail outlet under operating lease arrangement. Leases for office premises and retail outlets are negotiated for the term in 3 years.

At the financial position date, the Group had total future minimum lease payments under non-cancelable operating leases falling due as follows:–

	<b>As at 30 September 2011 (Unaudited) HK\$'000</b>	<b>As at 31 March 2011 (Audited) HK\$'000</b>
Within one year	38,778	3,679
In the second to fifth years inclusive	58,923	6,118
	<b>97,701</b>	9,797

In addition to the operating lease commitments above, the Group did not have any significant capital commitments at 30 September 2011 (2010: Nil).

**18. RELATED PARTY TRANSACTIONS**

- (a) In addition to the transactions and balances disclosed elsewhere in the Interim Accounts, the Group had the following transactions with related parties:

	<b>As at 30 September 2011 (Unaudited) HK\$'000</b>	<b>2010 (Unaudited) HK\$'000</b>
Rental expenses paid	121	244

These transactions were conducted in the ordinary course of business. In the opinion of the directors, the expenses were fair and reasonable in the market at the prescribed period.

- (b) The other loans of the Company were guaranteed by a director of the Company.

## MANAGEMENT DISCUSSION AND ANALYSIS

### **Business review and corporate development**

The Board of Directors is delighted to report that the Group has attained significant achievements in expanding into the retail sector during the six months ended 30 September 2011. Through the completion of the acquisition of Sharp Wonder Holdings Limited, which holds 100% of the equity interest of Larry Jewelry Limited and Larry Jewelry (1967) Pte. Ltd, as well as Parkwell Group, the Group has secured a strong position in the fine jewelry retail sector, while broadening its geographical coverage to Singapore and Beijing.

The Group's initial focus of the post-transaction integration is to align all resources with the vision of the Group, ensuring a consistent brand image and developing a more comprehensive business support infrastructure. In view of this, the Group has retained a number of experienced senior executives in the retail, marketing, information technology and finance fields to strengthen its management capability.

During the period under review, the management is pleased to see that its retail business under the "Larry Jewelry" brand started to contribute revenue to the Group. Following the acquisition of the "Larry Jewelry" brand, the Group has been actively pursuing opportunities to open new stores in Hong Kong and Beijing. During the period under review, the progress of the business expansion of the Group was satisfactory. A new retail store of "Larry Jewelry" was opened on 11 August 2011 in Causeway Bay, bringing the number of retail stores under Larry Jewelry in Hong Kong and Singapore to a total of six. Besides, the first retail store of "Vera", a newly created line of the Group to tap into the mid-tier market with value-affordable luxury was opened in October so as to expand its customer segment strategically. The management intends to identify more suitable locations for its new stores.

Meanwhile, the Group has been reviewing the sustainability of its retail business model in Macau. In order to better allocate its resources, it decided to terminate its Macau operations in July. With the addition of new retail businesses into the Group, the management remains committed to review the profitability and efficiency of various business units so as to sustain a long-term business growth.

## FINANCIAL REVIEW

### Revenue

With the addition of the new business units, the Group's revenue during the six months ended 30 September 2011 increased by 165.7% over the same period last year. This is mainly due to the contribution of Larry Jewelry which has been performing in line with expectations. However, revenue generated from the Group's wholesale business has reduced by approximately 57.4% compared with the same period last year due to the slow recovery and volatility of the markets in Europe and the United States.

### Gross profit

The gross margin of the Group as reported in the consolidated income statement was 19.3%. This is due to the fact that in accordance with accounting standards, the inventories of Sharp Wonders Holding Limited as at 19 July 2011 were revalued at the fair market value, representing a 18.4% increase over their historical costs. If all the Group's inventories were recorded based on historical cost levels, the adjusted gross margin of the Group would be 32.6%. As Sharp Wonders Holding Limited has an inventory turnover of approximately one time, the decrease in gross margins due to the captioned fair market revaluation of inventories as at 19 July 2011 would continue to have an impact on the Group's consolidated results in the next six-to-nine months.

### Other income

The Group's other income for the six months ended 30 September 2011 decreased by approximately 52.3% to HK\$208,000 compared to approximately HK\$436,000 for the corresponding period last year. The decrease was mainly because the other income for the last period included a gain on disposal of moulds which were no longer in use since September 2010.

### Distribution costs

Distribution expenses of the Group for the six months ended 30 September 2011 increased to approximately HK\$11,673,000 compared to approximately HK\$2,013,000 for the corresponding period last year, representing an increase of 479.9%. The increase was mainly attributed to the operating costs of the retail operations acquired during the reporting period and the marketing expense for promoting the brands.

**Administrative expenses**

The Group's administrative expenses for the reporting period increased by 587.2% to approximately HK\$35,198,000 compared to approximately HK\$5,122,000 for the six months ended 30 September 2010. The increase reflected the Group's increase in the scale of the operation through acquisitions, opening of new stores as well as cost for completing the acquisitions and capital raising exercises.

**Loss attributable to owners of the Company**

Loss attributable to owners of the Company was 43,043,000 for the six months ended 30 September 2011 compared to profit of HK\$322,000 for the corresponding period of last year. The deterioration was mainly attributed to the poor performance of the wholesale business and increased costs associated with the corporate activities completed during the past six months.

**LIQUIDITY AND FINANCIAL RESOURCES**

As at 30 September 2011, total assets of the Group were HK\$656.4 million, of which current assets reached HK\$522.6 million. Total liabilities were HK\$455.6 million, whereas non-current liabilities were HK\$61.0 million. Equity attributable to shareholders of the Company amounted to HK\$199.8 million.

As at 30 September 2011, the Group had aggregate cash and bank balances of approximately HK\$165.6 million (31 March 2011: HK\$64.7 million) and total borrowings amounted to approximately HK\$343.3 million (31 March 2011: HK\$Nil). Total net borrowings were HK\$177.7 million (31 March 2011: HK\$Nil). Net gearing ratio increased from zero as at 31 March 2011 to 89% as at 30 September 2011.

The maturity of the borrowings of the Group as at 30 September 2011 is set out as follows:

	<i>HK\$000</i>
Borrowings from other financial institutions	
Within 1 year	150,000
Promissory notes at principal amount	
Within 1 year	150,000
Convertible notes at principal amount	
Between 2 and 5 years	56,000

The Group has completed a series of capital raising exercises during the past six months to strengthen its financial position. For details, please refer to the “Capital Raising section below. Management is in ongoing discussions with financial institutions and strategic investors to further enhance its financial resources. Furthermore, as at the latest practicable date, the Company has injected Hong Kong Dollars eighty million working capital to Larry Jewelry in accordance with the requirements of the sales and purchase agreement with Solid Bonus Limited. This will provide adequate financial resources for Larry Jewelry to meet its working capital requirements until 31 December 2012.

### CAPITAL RAISING

1. On 29 April 2011, the Company issued 26,000,000 shares to the connected persons of the Company at a price of HK\$0.553 per subscription share under a specific mandate granted by the independent shareholders on 15 April 2011.
2. On 31 August 2011, the Company issued 61,800,000 shares at a price of HK\$0.75 per placing share by way of top-up placing.
3. On 30 September 2011, the Company issued 72,700,000 shares to the connected persons of the Company at a price of HK\$0.75 per subscription share under a specific mandate granted by the independent shareholders on 28 September 2011.

## ACQUISITION OF SUBSIDIARIES

1. On 19 July 2011, the Group completed the acquisition of the entire equity interest in Sharp Wonder Holdings Limited at a consideration of HK\$388 million, of which HK\$239 million was paid by the Company in cash and HK\$149 million (being fair value of the promissory notes) was satisfied by the issue of the promissory notes of the Company. Following the completion, the Group beneficially owns the entire interest of the three jewelry retail outlets in Hong Kong and two jewelry retail outlets in Singapore, all under the brand name of “Larry Jewelry 俊文寶石店”.
2. On 6 August 2011, Alpha Wealth Investments Limited (the “Purchaser”), a wholly owned subsidiary of the Company, and Ms Chung Sin Yee, Iris, Ms Shuen Wing Ming, Janet and Ms Tsung Hing Chau (collectively, the “Vendors”) entered into a sale and purchase agreement in relation to the acquisition of the entire issued share capital of Parkwell Asia Limited and the shareholders’ loan from the Vendors at a consideration of HK\$6.0 million, of which HK\$3.5 million was paid by the Company in cash and HK\$2.5 million (being fair value of the convertible notes) was satisfied by the issue of the convertible notes of the Company to the Vendors. The completion of the acquisition took place on 8 September 2011.

## BUSINESS PROSPECTS

Given the volatile market outlook and the current financial position of the Group, the Group plans to focus on strengthening its financial position in the coming six-to-nine months. Firstly, all expenses would be stringently reviewed to preserve its cash position. Secondly, all capital expenditure and investment projects would be carefully evaluated so that the Group consolidates its resources to implement its expansion plan in a focused and prudent manner. Lastly, it would also ensure that inventories and accounts receivables would be better managed and exert its greatest efforts to realise the transformation of the slower moving items into cash for expansion.

Meanwhile, the Group will step up its investment in information technology infrastructure Enterprise Resources system in order to enhance its operating efficiency and establish a solid platform for growth. By fortifying these essential elements of its business operation, the Group will be able to better equip itself for expansion of its retail business.

Moving forward, the retail business will be the key development focus of the Group. In order to penetrate different customer segments, the Group has adopted a multi-brand strategy. Larry Jewelry, one of the longest-established fine jewelry brands in Hong Kong and Singapore with more than 40 years of history, is targeting the high-end market as well as high-spending mainland tourists. Besides, a self-owned jewelry fashion brand “Vera” has been newly created to tap into the mid-tier market with value-affordable luxury. With the rising affluence in the Asia-Pacific region, the Group will be focusing on building an extensive retail network for both “Larry Jewelry” and “Vera” brands in the PRC, Hong Kong and Southeast Asia.

As it strategically decreases the proportion of its wholesale business, the retail business will gradually become the Group’s major revenue source. As a sound and healthy financial position is vital to sustain long-term business growth, the Group will endeavor to consolidate both its business and operating fundamentals.

#### **CONTINUING CONNECTED TRANSACTIONS**

On 8 April 2011, the Company entered into a tenancy letter with Goldfull Property Limited for the leasing of the Causeway Bay premises for a term of two years from 13 May 2011 up to and including 12 May 2013.

On 19 July 2011, Larry Jewelry Limited, a wholly owned subsidiary of the Group, entered into a lease agreement with Goldfull Property Limited for the leasing of the TST premises for a term of three years from 19 July 2011 up to and including 18 July 2014.

Goldfull Property Limited is 96% beneficially owned by the brother of Mr Chan Hoo Chow (“Mr Charles Chan”) and Mr Chan Ho Kong (“Mr Stanley Chan”). Mr Charles Chan and Mr Stanley Chan are the directors of Sharp Wonder Holdings Limited. Upon the completion of the acquisition of the entire equity interest in Sharp Wonder Holdings Limited on 19 July 2011, Mr Charles Chan and Mr Stanley Chan and Goldfull Property are connected persons of the Company under the GEM Listing Rules. The lease of the CWB premises therefore is subject to reporting, annual review and disclosure requirements under Rule 20.41 of the GEM Listing Rules. In addition, the lease of the TST premises therefore constitutes continuing connected transactions of the Company under Chapter 20 of the GEM Listing Rules. As one or more of the applicable percentage ratios as defined under Rule 20.10



of the GEM Listing Rules in respect of the annual caps of the value of the lease of the TST Premises (the “Leasing Annual Caps”), on an annual basis, exceeds 5% and the Leasing Annual Caps exceeds HK\$10,000,000, the Leasing Annual Caps are subject to the reporting, announcement and independent shareholders’ approval requirements under the GEM Listing Rules.

### **CHARGES ON GROUP ASSETS**

A security for the due and punctual payment and performance of the obligations of the Company under an aggregate principal amount of HK\$150,000,000 of the promissory notes dated 19 July 2011, which was issued by Company, is secured by a share charge dated 19 July 2011 over the entire issued share capital of Sharp Wonder Holdings Limited (a wholly-owned subsidiary of the Group) executed by Peakwood Limited (a wholly-owned subsidiary of the Group) as the charger in favour of Solid Bonus Limited.

### **FOREIGN EXCHANGE EXPOSURE**

The Group carries out its business in Hong Kong and worldwide and most of the transactions are denominated in HK\$, United States Dollars (“US\$”), Japanese Yen (“JPY”), Canadian Dollars (“CAD”), Australian Dollars (“AUD”), Euro (“EUR”), British Pounds (“GBP”), Taiwan Dollars (“TWD”) and Singapore Dollars (“SGD”). Exposures to currency exchange rates arise from the Group’s overseas sales and purchases. Accordingly, the Board is of the view that, to certain extent, the Group is exposed to foreign currency exchange risk.

For the US\$ foreign exchange exposure, the Board believes the exposure is small as the exchange rate of US\$ to HK\$ is comparatively stable. However, the Group is exposed to JPY, CAD, AUD, EUR, GBP, TWD and SGD exchange exposure and fluctuation of exchange rates of these currencies against HK\$ could affect the Group’s results of operations.

To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure to foreign currency risk. During the period under review, management of the Group did not consider it necessary to use foreign currency forward contracts to hedge the exposure to foreign exchange risk as most of the assets and liabilities denominated in currencies other than the functional currency of the entities to which they related are short term foreign currency cash flows. However, management of the Group is reviewing this policy as with the acquisition of Sharp Wonder, approximately 20% of the Group’s asset is denominated in SGD.

## **TREASURY POLICIES**

The Group adopts a conservative approach towards its treasury policies. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluations of the financial conditions of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

## **EMPLOYEES AND REMUNERATION POLICIES**

As at 30 September 2011, the Group had 135 (31 March 2011: 31) employees, including the Directors. Total staff costs (including Directors' emoluments) were approximately HK\$9,720,000 for the six months ended 30 September 2011 as compared to approximately HK\$1,760,000 for the six months ended 30 September 2010. Remuneration is determined with reference to market terms and the performance, qualification and experience of individual employee. Year-end bonus based on individual performance will be paid to employees as recognition of and reward for their contributions. Other benefits include contributions to statutory mandatory provident fund scheme to its employees in Hong Kong and share option scheme.

## **CHANGE OF FINANCIAL YEAR END DATE**

At a meeting on 30 September 2011, the Board resolved that the financial year end date of the Group has been changed from 31 March to 31 December commencing from the financial period ending 31 December 2011 in order to have a co-terminus financial year end date with most of the new subsidiaries of the Company acquired pursuant to the acquisition of the entire equity interests in Sharp Wonder Holdings Limited on 19 July 2011. Details of this change were contained in an announcement made by the Company on 30 September 2011.

## **CHANGE OF COMPANY NAME**

On 30 September 2011, the Company proposed to change the English name of the Company from "Eternite International Company Limited" to "Larry Jewelry International Company Limited" (the "Primary Name") and the Chinese name of the Company, from "永恒國際股份有限公司" (which has been used by the Company for identification purposes only) to "俊文寶石國際有限公司" (the "Secondary Name") by adopting the same as the secondary name of the Company. The proposed change of the company name is subject to (a) the passing of a special resolution by the shareholders at the special general meeting; and (b) the granting of the approval for the change of the company

name by the Registrar of Companies in Bermuda. A circular containing the details of the proposed change of company name was dispatched to the shareholders on 4 October 2011. The proposed change of the company name was approved by the shareholders at the special general meeting held on 26 October 2011 and the Company is carrying out the necessary registration and/or filing procedures in respect of the change of the company name with the Registrar of Companies in Bermuda and the Companies Registry in Hong Kong respectively. As at the date of this report, the change of the company name has not yet been completed.

#### **COMPARISON BETWEEN THE BUSINESS OBJECTIVES AND THE ACTUAL OPERATION PROGRESS**

The following is a summary of the actual progress of the Group compared with the business objectives set out in the Prospectus for the period from 1 April 2011 to 30 September 2011 (the “Review Period”).

	<b>The business objectives stated in the Prospectus</b>	<b>Actual operation progress for the period ended 30 September 2011</b>
<b>Product development</b>	Obtain customers’ feedback and develop more designs for new product series manufactured by the microsetting and/or invisible setting techniques	Whilst the designs were attractive, the sales generated were much lower than expected amid poor market sentiment.
	Launch the Group’s new product series in gemstones and pearls	The launch was delayed due to unfavourable market conditions
	Develop high-end new products with unique designs	The Group will leverage on the design team of Larry Jewellery to develop such products
	Produce designs for potential customers in the Pan-pacific Region, in particular, Australia	Management would like to focus on the Greater China region which has a higher growth potential in the short to medium terms
	Explore the market appetites in South America	Due to refocus on the Greater China market, the sales trip to South America was cancelled

	<b>The business objectives stated in the Prospectus</b>	<b>Actual operation progress for the period ended 30 September 2011</b>
<b>Expansion of sales network</b>	<p>Strengthen the communication channels with existing customers and existing markets</p>	<p>Several sales trips were made to Singapore, Europe and Canada. However, the results were disappointing</p>
	<p>Expand the customer base by further exploring business opportunities with potential customers in existing markets</p>	<p>Meetings with potential customers were arranged during the sales trips. New sales generated were limited due to slow recovery in Europe and US</p>
	<p>Enhance the Group’s corporate profile, improve product display in tradeshows and participate in more new tradeshows, if necessary</p>	<p>The Group participated in two tradeshows in the past 6 months with limited success</p>
	<p>Evaluate the performance in the Eastern Europe, in particular, Russia based on the sales revenue and feedback from relevant customers and modify the business plan, if necessary</p>	<p>Leads generated from these markets were minimal. The Group decided to focus on the Greater China market</p>
	<p>Develop business opportunities in the Pan-pacific region based on information gathered from overseas customers’ visit(s) and contacts with the potential customers, produce new product designs which suit the market demand in the Pan-pacific Region, and arrange two business trips to promote these products</p>	<p>Based on the information gathered, management considered that investment in this sector may not generate attractive return to the shareholders</p>

**The business objectives stated in the Prospectus**

Explore business opportunities in South America based on information gathered from HKTDC and the Internet, study the market trends in the region, establish preliminary contacts with potential customers by arranging visit(s) to South America, by joining HKTDC trade tours to South America and by participating in tradeshows in South America and invite potential customers to attend the Hong Kong September Jewelry Show

Prepare feasibility studies report in relation to the establishment of branches in the Group's major markets

Evaluate the performance of the first retail outlet and modify the business plan, if necessary

Depending on sufficiency of the then internal resources of the Group, establish the Group's second retail outlet in the PRC, possibly in Guangdong province, Xi'an or Shanghai, including renting and fitting-out of premises and recruitment of staff

**Actual operation progress for the period ended 30 September 2011**

The trip to South America was cancelled as management considered that opportunities in the Greater China region offered a better growth potential for the Group

The setting up of branch in Europe and US was delayed due to poor market conditions in these markets

The Group closed the retail shop in Macau in July 2011 (due to unsatisfactory performance of the shop since inception). It has successfully entered into the retail segment through acquisitions.

Following the acquisition of Larry Jewelry and Parkwell, the Group has expanded its retail network to Singapore and Beijing. Management continues to identify suitable sites in these areas to open more retail outlets.

	<b>The business objectives stated in the Prospectus</b>	<b>Actual operation progress for the period ended 30 September 2011</b>
<b>Human resources deployment and staff training</b>	Prepare for the establishment of the Group's third retail outlet, possibly in Guangdong province, Xi'an or Shanghai including obtaining all necessary licences, identifying suitable premises, rent negotiation and preparing staff recruitment plan	The Group currently operates a total of eight retail outlets in Hong Kong, Singapore and Beijing.
	Evaluate and improve the design ability of the Group's in-house design team	The Group has secured both experienced designers and new talents through acquisition of Larry Jewelry, Parkwell as well as recruitment
	Participate in jewelry design competitions so as to enhance the experience of the in-house design team	This is delayed as the Group focus on other merger and acquisition activities
	Recruit additional staff in product design, if necessary	The Group has recruited two product designer to launch designs for the high-end market
	Strengthen the Group's procurement and quality control team through provision of training on the latest raw material knowledge and market trends	Training was provided to the staff involved. They were also encouraged to take professional examination
	Provide and organise trainings to the sales team on product knowledge, quality control processes, customer services and communication skills	Trainings to the sales team were provided
	Evaluate the performance of the sales team and recruit additional salespersons, if required	Several wholesale salespersons left the Group during the past six months. The Group continued to identify suitable candidates as replacement

<b>The business objectives stated in the Prospectus</b>	<b>Actual operation progress for the period ended 30 September 2011</b>
Enhance after-sales customer services	More regular follow up with customers were conducted to boost new orders from existing customers. Sales from existing customers represented a significant part of the Group's wholesale business during the period under review
<b>Procurement and contract manufacturing</b>	Further enhance the networking and communication with the Group's suppliers and jewelry subcontractors
Identify potential suppliers and jewelry subcontractors in other markets	The Group has leveraged on the supplier and contractor network of Larry Jewelry and Parkwell to broaden its network.  Several new suppliers and subcontractors had been identified. The Group has begun working with these parties on a pilot basis,

#### USE OF PROCEEDS GENERATED FROM LISTING ON GEM

During the Review Period, the Group has applied the net proceeds as follows:

	<b>Amount extracted from the Prospectus</b>	<b>Actual usage</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Product development	3,200	3,200
Expansion of sales net work	3,700	3,700
Human resources deployment and staff training	3,000	3,000
Procurement and contract manufacturing	2,000	2,000
Enhancement of inventory level	2,500	2,500
General working capital	1,600	1,600
	16,000	16,000

The net proceeds has been used in full in accordance with plan for use of proceeds as disclosed in the Prospectus.

**SHARE OPTIONS**

The Company has conditionally adopted the Share Option Scheme on 21 September 2009 under which certain selected classes of participants (including, among others, full-time employees) may be granted options to subscribe for the Shares. The principal terms of the Share Option Scheme are summarised in the paragraph headed “Share Option Scheme” in Appendix V to the Prospectus.

As at 30 September 2011, details of the options granted under the Share Option Scheme and the General Mandate were as follows:

Grantee	Number of Share Options					Outstanding as at 30 September 2011	Date of Grant	Exercise Period	Exercise price
	Outstanding as at 1 April 2011	Granted during the Period	Exercised during the Period	Lapsed during the Period	Cancelled during the Period				
<b>(i) Under Share Option Scheme</b>									
<b>Directors</b>									
Ms Tsang Po Yee Pauline	5,810,000	-	-	-	-	5,810,000	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
Mr Chan Man Fai Joe	5,810,000	-	-	-	-	5,810,000	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
Mr Joseph Patrick Chu Yeong Kang ( <i>Note</i> )	5,810,000	-	-	(5,810,000)	-	-	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
Mr Yim Kwok Man ( <i>Note</i> )	5,810,000	-	-	(5,810,000)	-	-	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
Mr Tam B Ray Billy	5,810,000	-	-	-	-	5,810,000	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750
Consultant	-	8,304,500	-	-	-	8,304,500	30 September 2011	30 September 2011 to 29 September 2014	HK\$0.550
	29,050,000	8,304,500	-	(11,620,000)	-	25,734,500			
<b>(ii) Under General Mandate</b>									
Consultant	17,000,000	-	-	-	-	17,000,000	8 March 2011	8 March 2011 to 7 March 2013	HK\$0.553
	17,000,000	-	-	-	-	17,000,000			
<b>Total</b>	<b>46,050,000</b>	<b>8,304,500</b>	<b>-</b>	<b>(11,620,000)</b>	<b>-</b>	<b>42,734,500</b>			

*Note:* Mr Joseph Patrick Chu Yeong Kang and Mr Yim Kwok Man resigned as Non-executive Directors on 29 July 2011 and 31 August 2011 respectively.



**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION**

As at 30 September 2011, the interests and short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Cap. 571, Laws of Hong Kong) ("SFO")) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO) or as recorded in the register required to be kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by directors as referred to in Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

**Long Positions in Share Options of the Company**

Name of Director	Date of Grant of Share Options	Exercise Period	Exercise Price	Number of Options Directly Beneficially Owned	Approximate Percentage of Total Issued Shares
Ms Tsang Po Yee Pauline	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750	5,810,000	0.70%
Mr Chan Man Fai Joe	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750	5,810,000	0.70%
Mr Tam B Ray Billy	10 March 2011	10 March 2011 to 9 March 2021	HK\$0.750	5,810,000	0.70%
Total				17,430,000	

**Long Positions in Shares of the Company**

<b>Name of Director</b>	<b>Capacity of Interests</b>	<b>Number of Ordinary Shares Held</b>	<b>Approximate Percentage of Shareholding of the Company</b>
Mr So Chun Kai ("Mr. So") ( <i>Note</i> )	Interest of Controlled Corporation	7,500,000	0.90%
Mr Chan Man Fai Joe ("Mr. Chan")	Beneficial Owner	5,000,000	0.60%

*Note:* Mr So is the beneficial owner of 100% of the issued share capital of King Honor Limited. Mr So is deemed to be interested in the 7,500,000 shares held by King Honor Limited under the SFO. Mr So resigned as Executive Director on 31 August 2011.

Save as disclosed above, as at 30 September 2011, none of the directors and chief executives of the Company had any other interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporation (within the meaning of Part XV of the SFO) which 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 or short positions which they were taken or deemed to have under such provisions of the SFO), or which were required to be recorded in the register kept by the Company under Section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules.

**SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES**

As at 30 September 2011, other than the interests of certain directors and chief executive of the Company as disclosed under the section headed "Directors' and chief executives' interests and short positions in the shares, underlying shares and debentures of the company or any associated corporation" above, the interests or short positions of person in the shares, underlying shares and debentures of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, 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 any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

**Long Positions in Shares of the Company**

<b>Name of Shareholder</b>	<b>Capacity of Interest</b>	<b>Number of Issued Ordinary Shares Held</b>	<b>Approximate Percentage of Shareholding in the Company</b>
Galaxy Asset Management (H.K.) Ltd ( <i>Note 1</i> )	Investment Advisor	191,180,000	23.02%
Fullink Management Limited ( <i>Note 2</i> )	Beneficial Owner	181,000,000	21.80%
Mr Tsang, Michael Man-heem ( <i>Note 2</i> )	Interest of Controlled Corporation	181,000,000	21.80%
Citigroup Inc.	Person Having a Security Interest in Shares	170,666,666	20.55%
UBS AG	Person Having a Security Interest in Shares	65,460,000	7.88%
Mr Chan Tzuenn Man	Beneficial Owner	43,000,000	5.18%

*Notes:*

- These Shares refer to 96,760,000 Shares held by Galaxy China Deep Value Fund, 65,460,000 Shares held by Galaxy Master Fund SPC, for and on behalf of its segregated portfolio, Galaxy China Special Situations Segregated Portfolio 1, 10,850,000 Shares held by Galaxy Master Fund SPC, for and on behalf of Galaxy China Hidden Value Fund Segregated Portfolio, 7,110,000 Shares held by Galaxy China Opportunities Fund and 11,000,000 Shares held by Galaxy Master Fund SPC, for and on behalf of Galaxy Mining and Natural Resources Fund Segregated Portfolio. Galaxy Asset Management (H.K.) Limited is the investment advisor to these funds. Mr Chan Man Fai Joe, a Non-executive Director and the Chairman of the Company, is a Director of Galaxy Asset Management (H.K.) Ltd.
- These Shares are held by Fullink Management Limited, which is beneficially owned as to 40% by Mr Tsang, Michael Man-heem, 15% by Ms Tsang Po Yee Pauline (an Executive Director), 15% by Ms Tsang, Becky Po Kei, 15% by Ms Tsang, Po De Wendy and 15% by Ms Tsang, Marina Po Hing. Ms Tsang Po Yee Pauline, an Executive Director) is a Director of Fullink Management Limited.

Save as disclosed above, as at 30 September 2011, the directors of the Company were not aware of any other person (other than the directors and chief executive of the Company) who had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or, who is, directly or indirectly, 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 any other members of the Group, or any other substantial shareholders whose interests or short positions were recorded in the register required to be kept by the Company under Section 336 of the SFO.

### **CONVERTIBLE NOTES**

1. On 11 July 2011, an aggregate principal amount of HK\$54,000,000 of the convertible notes were issued to placees with the conversion price of HK\$1.50 per conversion share, which bear interest at the rate of 2% per annum and will be redeemed by the Company on 11 July 2014 at 120% of its principal amount.
2. As disclosed under the heading “Acquisition of Subsidiaries”, on 8 September 2011, an aggregate principal amount of HK\$2,000,000 of the convertible notes were issued to Ms Chung Sin Yee, Iris, Ms Shuen Wing Ming, Janet and Ms Tsung Hing Chau with the conversion price of HK\$1.00 per conversion share, which do not bear any interest and will be redeemed by the Company on 8 September 2014 at 100% of its principal amount.

### **DIRECTOR’S RIGHTS TO ACQUIRE SHARE OR DEBENTURES**

Apart from as disclosed under the heading “Directors’ and chief executives’ interests and short positions in the shares, underlying shares and debentures of the company or any associated corporation” above, at no time during the reporting period were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company or of any other body corporate granted to any directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangements to enable the directors, their respective spouse or children under 18 years of age to acquire such rights in the Company or any other body corporate.

**PURCHASE, REDEMPTION OR SALE OF THE SHARES**

Neither the Company, nor any of its subsidiaries has purchased, redeemed or sold any of the Company's listed shares during the six months ended 30 September 2011.

**INTERESTS OF THE COMPLIANCE ADVISER**

As notified by the compliance adviser of the Company, Cinda International Capital Limited (the "Compliance Adviser"), as at 30 September 2011, except for the agreement entered into between the Company and the Compliance Adviser dated 28 September 2009, neither the Compliance Adviser or its directors, employees or associates had any interests in relation to the Group.

**DIRECTOR'S INTERESTS IN COMPETING INTERESTS**

As at the date of this report, none of the directors, the management shareholders of the Company and their respective associates (as defined in the GEM Listing Rules) had any interest in a business which causes or may cause a significant competition with the business of the Group and any other conflicts of interest which any such person has or may have with the Group.

**CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard of dealings set out in Rules 5.48 to 5.67 of the GEM Listing Rules. Having made specific enquiry of all directors, the Company was not aware of any non-compliance with such required standard of dealings and its code of conduct regarding securities transactions by directors during the six months ended 30 September 2011.

**CORPORATE GOVERNANCE PRACTICES**

The Company has complied with the code provisions as set out in the Code on Corporate Governance Practices contained in Appendix 15 of the GEM Listing Rules throughout the period under review.

## **AUDIT COMMITTEE**

The Audit Committee comprises three independent non-executive directors of the Company, namely Mr. Seto Man Fai, Mr. Ho Hin Hung Henry, and Mr. Lam Kin Kok. The unaudited consolidated results of the Group for the six months ended 30 September 2011 have not been audited by the Company's auditors, but have been reviewed by the Committee, who is of the opinion that such statements comply with the applicable accounting standards, the Stock Exchange and legal requirements, and that adequate disclosures have been made.

By Order of the Board  
**Eternite International Company Limited**  
**Tsang Po Yee Pauline**  
*Executive Director*

Hong Kong, 11 November 2011

*As at the date of this report, the Board comprises Ms Tsang Po Yee Pauline as Executive Director, Mr Chan Man Fai Joe as Chairman and Non-executive Director, Mr Tam B Ray Billy as Non-executive Director, and Mr Seto Man Fai, Mr Ho Hin Hung Henry and Mr Lam Kin Kok as Independent Non-executive Directors.*