CONTINENTAL
HOLDINGS LIMITED
恒和珠寶集團有限公司

INTERIM REPORT 2012

二零一二年中期報告

(Stock Code: 00513)

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Contents

(In the event of inconsistency, the English text shall prevail over the Chinese text)

The board of directors (the "Board") of Continental Holdings Limited (the "Company") announces the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 31 December 2011 together with the comparative figures for the corresponding period in 2010.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Unaudited Six months ended 31 December	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
Revenue	*4*	**525,850**	516,752
Cost of sales		**(447,548)**	(459,442)
Gross profit		**78,302**	57,310
Selling and distribution costs		**(13,053)**	(13,911)
Administrative expenses		**(47,901)**	(31,479)
Other operating income		**460**	–
Excess of interest in the net fair value of the net identifiable assets over the fair value of the total cost of acquisition of subsidiaries	*20*	**364,797**	–
Impairment of available-for-sale financial assets		**(85,779)**	–
Change in fair value of financial assets at fair value through profit or loss		**(9,159)**	3,674
Share-based compensation	*17*	**(35,338)**	–
Profit from operations		**252,329**	15,594
Finance costs	*5*	**(4,933)**	(416)
Share of results of associates		**375**	75
Share of results of jointly controlled entities		**(3,950)**	(2,465)
Profit before income tax	*6*	**243,821**	12,788
Income tax credit/(expense)	*7*	**1,358**	(1,280)
Profit for the period		**245,179**	11,508
Other comprehensive income for the period:			
Change in fair value of available-for-sale financial assets, net		**(67,681)**	(4,449)
Reclassification from equity to profit or loss on impairment of available-for-sale financial assets		**85,779**	–
Exchange differences on translation of foreign operations, associates and jointly controlled entities		**25,109**	5,436
Other comprehensive income for the period, net of tax		**43,207**	987
Total comprehensive income for the period		**288,386**	12,495

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (Continued)

		Unaudited Six months ended 31 December	
		2011	2010
	Notes	***HK$'000***	*HK$'000*
Profit for the period attributable to:			
Owners of the Company		**247,779**	11,508
Non-controlling interests		**(2,600)**	–
Profit for the period		**245,179**	11,508
Total comprehensive income attributable to:			
Owners of the Company		**290,986**	14,695
Non-controlling interests		**(2,600)**	(2,200)
		288,386	12,495
Dividends	*8*	**–**	3,128
Earnings per share	*9*		
– Basic		**HK6.21 cents**	HK0.37 cents
– Diluted		**N/A**	HK0.36 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Unaudited At 31 December 2011 HK$'000	Audited At 30 June 2011 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**111,702**	52,298
Land use rights		**44,841**	3,813
Investment property		**449,179**	446,500
Mining right	*10*	**1,031,239**	–
Interests in associates		**2,797**	2,333
Interests in jointly controlled entities	*11*	**462,410**	417,326
Available-for-sale financial assets		**64,205**	137,718
Deferred tax assets		**9,326**	9,326
		2,175,699	1,069,314
Current assets			
Inventories		**249,027**	267,829
Trade receivables	*12*	**131,881**	116,484
Prepayments, deposits and other receivables		**12,677**	9,720
Financial assets at fair value through profit or loss		**13,551**	15,235
Derivative financial instruments		**21**	126
Due from associates		**27**	18
Due from a jointly controlled entity		**137**	141
Cash and cash equivalents		**123,312**	49,867
		530,633	459,420
Current liabilities			
Trade payables	*13*	**(116,754)**	(143,522)
Other payables and accruals		**(78,882)**	(41,859)
Provision for taxation		**(9,676)**	(16,367)
Due to a jointly controlled entity		**(4)**	(14)
Due to related parties	*21(c)*	**(35,542)**	–
Bank loans, secured	*14*	**(346,896)**	(235,139)
		(587,754)	(436,901)
Net current (liabilities)/assets		**(57,121)**	22,519
Total assets less current liabilities		**2,118,578**	1,091,833

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

	Notes	**Unaudited At 31 December 2011 HK$'000**	Audited At 30 June 2011 HK$'000
Non-current liabilities			
Due to ultimate holding company		**(7,877)**	(7,877)
Advance from a director	*15*	**(110,000)**	–
Convertible notes		**(66,194)**	(50,802)
Deferred tax liabilities		**(241,082)**	(16)
		(425,153)	(58,695)
Net assets		**1,693,425**	1,033,138
EQUITY			
Equity attributable to the owners of the Company			
Issued capital	*16*	**51,107**	31,283
Reserves		**1,648,583**	1,005,520
		1,699,690	1,036,803
Non-controlling interests		**(6,265)**	(3,665)
Total equity		**1,693,425**	1,033,138

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Net cash generated from operating activities	**9,504**	17,820
Net cash used in investing activities	**(181,037)**	(176,010)
Net cash generated from financing activities	**257,015**	70,481
Increase/(Decrease) in cash and cash equivalents	**85,482**	(87,709)
Cash and cash equivalents at 1 July	**49,867**	153,940
Effect of foreign exchange rate changes, net	**(12,037)**	(672)
Cash and cash equivalents at 31 December	**123,312**	65,559
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	**123,312**	65,559

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued capital	Share premium account	Warrant reserve	Non-distributable reserve	Other reserve	Convertible note equity reserve	Exchange fluctuation reserve	Investment revaluation reserve	Retained profits	Proposed dividends	Total	Non-controlling interests	Total equity
	Unaudited Six months ended 31 December												
	Equity attributable to the owners of the Company												
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 30 June 2011 and 1 July 2011:	31,283	190,743	53,008	273,606	(5,397)	2,310	32,078	(16,127)	475,299	–	1,036,803	(3,665)	1,033,138
Recognition of share-based compensation	–	–	35,338	–	–	–	–	–	–	–	35,338	–	35,338
Issue of convertible note	–	–	–	–	–	116,034	–	–	–	–	116,034	–	116,034
Issue of shares on acquisition of subsidiaries	17,647	165,882	–	–	–	–	–	–	–	–	183,529	–	183,529
Issue of subscription shares	2,177	34,823	–	–	–	–	–	–	–	–	37,000	–	37,000
Transaction with owners	19,824	200,705	35,338	–	–	116,034	–	–	–	–	371,901	–	371,901
Exchange differences on translation of the financial statements of foreign operations, associates and jointly controlled entities	–	–	–	–	–	–	25,109	–	–	–	25,109	–	25,109
Change in fair value of available- for-sale financial assets	–	–	–	–	–	–	–	(67,681)	–	–	(67,681)	–	(67,681)
Reclassification from equity to profit or loss on impairment of available-for-sale financial assets	–	–	–	–	–	–	–	85,779	–	–	85,779	–	85,779
Other comprehensive income for the period, net of tax	–	–	–	–	–	–	25,109	18,098	–	–	43,207	–	43,207
Profit for the period	–	–	–	–	–	–	–	–	247,779	–	247,779	(2,600)	245,179
Total comprehensive income for the period	–	–	–	–	–	–	25,109	18,098	247,779	–	290,986	(2,600)	288,386
Balance at 31 December 2011	51,107	391,448	88,346	273,606	(5,397)	118,344	57,187	1,971	723,078	–	1,699,690	(6,265)	1,693,425
Balance at 30 June 2010 and 1 July 2010	31,283	190,743	53,008	273,606	(8,779)	–	16,011	(897)	447,266	3,128	1,005,369	1,057	1,006,426
Exchange differences on translation of the financial statements of foreign operations, associates and jointly controlled entities	–	–	–	–	–	–	5,436	–	–	–	5,436	–	5,436
Change in fair value of available–for–sale financial assets	–	–	–	–	–	–	–	(2,249)	–	–	(2,249)	(2,200)	(4,449)
Other comprehensive income/(loss) for the period, net of tax	–	–	–	–	–	–	5,436	(2,249)	–	–	3,187	(2,200)	987
Profit for the period	–	–	–	–	–	–	–	–	11,508	–	11,508	–	11,508
Total comprehensive income for the period	–	–	–	–	–	–	5,436	(2,249)	11,508	–	14,695	(2,200)	12,495
Payment of final 2010 dividend	–	–	–	–	–	–	–	–	–	(3,128)	(3,128)	–	(3,128)
Interim dividend, proposed	–	–	–	–	–	–	–	–	(3,128)	3,128	–	–	–
Balance at 31 December 2010	31,283	190,743	53,008	273,606	(8,779)	–	21,447	(3,146)	455,646	3,128	1,016,936	(1,143)	1,015,793

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

These condensed consolidated financial statements are prepared on the basis that the Group is a going concern in view of the net current liabilities as at 31 December 2011. As the results of the Group continues to improve as shown in the condensed consolidated statement of comprehensive income, management opines that the Group will continue to generate profits and positive cash flows from its operating activities. Together with the continuing support from the Group's bankers, the Group will have sufficient funds for the needs of working capital, investing and financing activities. Accordingly, it is appropriate to prepare these financial statements on a going concern basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standard ("HKFRSs") on the historical cost basis except for the investment properties and certain financial assets and liabilities, which are measured at fair values.

The accounting policies and basis of preparation adopted in the preparation of the interim financial statements are consistent with those used in the Group's annual financial statements for the year ended 30 June 2011.

In the current interim period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standard and Interpretations ("new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountant.

HKAS 24 (Revised)	Related Party Disclosures
HK(IFRIC) – Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the above new and revised HKFRSs in the current interim period, except as described below, 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.

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

HKAS 1 (amendments)	Presentation of Items of Other Comprehensive Income[1]
HKAS 19 (2011)	Employee Benefits[2]
HKAS 27 (2011)	Separate Financial Statements[2]
HKAS 28 (2011)	Investments in Associates and Joint Ventures[2]
HKAS 32 (amendments)	Presentation – Offsetting Financial Assets and Financial Liabilities[3]
HKFRS 7 (amendments)	Disclosure – Offsetting Financial Assets and Financial Liabilities[2]
HKFRS 9	Financial Instruments[4]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosures of Interests in Other Entities[2]
HKFRS 13	Fair value Measurement[2]

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Board of the Company is in the process of making an assessment of the potential impact of these new/revised HKFRSs and the Board are not yet in a position to quantify the effects on the Group's Financial Statement.

[1] Effective for annual periods beginning on or after 1 July 2012
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2014
[4] Effective for annual periods beginning on or after 1 January 2015

3. SEGMENT INFORMATION

The Group identifies operating segments and prepares segment information based on the regular internal financial information reported to the executive directors for their decisions about resources allocation to the Group's business components and for their review of the performance of those components. The business components in the internal financial information reported to the executive directors are determined following the Group's major product and service lines.

The Group has identified the following reportable segments:

– Design, manufacturing, marketing and trading of fine jewellery and diamonds;

– Property investment; and

– Investment

Each of these operating segments is managed separately as each of the product and service lines requires different resources as well as marketing approaches. All inter-segment transfers, if any, are carried out at arms length prices.

As disclosed in Note 20, on 12 October 2011, the Group completed its acquisition on Big Bonus Limited and its subsidiaries ("Big Bonus Group") and became engaged in the mining business. However, no material production activity took place since the date of acquisition and therefore the Board consider that the mining operation did not constitute a business segment as at 31 December 2011.

3. SEGMENT INFORMATION (CONTINUED)

	Unaudited Six months ended 31 December							
	Design, manufacturing, marketing and trading of fine jewellery and diamonds		Property investment		Investment		Consolidated	
	2011	2010	**2011**	2010	**2011**	2010	**2011**	2010
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment Revenue:								
Sales to/revenue from external parties	**525,231**	514,833	**–**	149	**619**	1,770	**525,850**	516,752
Segment results	**26,635**	11,933	**(559)**	133	**(101,731)**	5,275	**(75,655)**	17,341
Excess of interest in the net fair value of the net identifiable assets over the fair value of the total cost of acquisition of subsidiaries							**364,797**	–
Share-based compensation							**(35,338)**	–
Unallocated expenses							**(1,475)**	(1,747)
Finance costs							**(4,933)**	(416)
Share of results of associates							**375**	75
Share of results of jointly controlled entities							**(3,950)**	(2,465)
Profit before income tax							**243,821**	12,788

4. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, gross rental income, interest income and dividend income from investments.

An analysis of the Group's revenue is as follows:

	Unaudited Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Sale of goods	**525,231**	514,833
Gross rental income	**–**	149
Interest income	**–**	286
Dividend income from investments	**619**	1,484
	525,850	516,752

5. FINANCE COSTS

	Unaudited Six months ended 31 December **2011** ***HK$'000***	 2010 *HK$'000*
Interest charges on:		
Bank loans wholly repayable within five years	**3,286**	2,852
Interest on advance from a director	**347**	–
Coupon interest on convertible notes	**1,016**	–
Imputed interest expenses on		
– convertible notes	**2,163**	–
Total finance cost	**6,812**	2,852
Less: bank loan interest capitalised in investment property	**(1,879)**	(2,436)
	4,933	416

6. PROFIT BEFORE INCOME TAX

Profit before income tax is stated after charging/(crediting):

	Unaudited Six months ended 31 December **2011** ***HK$'000***	 2010 *HK$'000*
Cost of inventories sold	**447,548**	459,442
Depreciation of property, plant and equipment	**4,087**	2,662
Amortisation of land use rights	**394**	38
Amortisation of mining right	**469**	–
Operating leases charges – land and buildings	**2,322**	2,956
Provision for trade receivables	**1,493**	1,339
Fair value loss on derivative financial instruments		
– forward currency contracts	**105**	–
Exchange loss/(gains)	**2,056**	(3,744)
Gain on disposal of property, plant and equipment	**(70)**	–

7. INCOME TAX (CREDIT)/EXPENSE

The amount of income tax (credit)/expense charged to the condensed consolidated statement of comprehensive income represents:

	Unaudited Six months ended 31 December	
	2011	2010
	HK$'000	*HK$'000*
Current tax		
Hong Kong	**3,237**	1,280
Over-provision in prior years	**(4,930)**	–
	(1,693)	1,280
PRC	**335**	–
	(1,358)	1,280

8. DIVIDENDS

The Board do not recommend the payment of an interim dividend for the six months ended 31 December 2011 (2010: HK$3,128,000).

9. EARNINGS PER SHARE

The calculation of basic and diluted earnings per share is based on the net profit attributable to the owners of the Company for the six months ended 31 December 2011 of HK$247,779,000 (2010: HK$11,508,000) and on the weighted average of 3,990,195,918 (2010: 3,128,303,340) ordinary shares in issue during the period.

For the six months ended 31 December 2011, no diluted earnings per share has been presented as the exercise price of the Company's unlisted warrants was higher than the average market share price of the period.

10. MINING RIGHT

	Unaudited
	HK$'000
Period ended 31 December 2011	
Opening net carrying amount	–
Acquired on acquisition of subsidiaries	1,017,663
Amortisation	(469)
Exchange realignment	14,045
Closing net carrying amount	1,031,239
At 31 December 2011	
Cost	1,031,922
Accumulated amortisation and impairment	(683)
Net carrying amount	1,031,239

The mining right represents the right to conduct mining activities in certain locations of Hongzhuang and Yuanling, Lunchuan County, Henan Province, the PRC. The mining license was issued by the Department of Land and Resources of Henan Province with a validity period of 20 years up to September 2031.

11. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Unaudited At 31 December 2011	Audited At 30 June 2011
	HK$'000	*HK$'000*
Share of net assets	**95,110**	87,026
Loan to a jointly controlled entity	**367,300**	330,300
	462,410	417,326

The loan to a jointly controlled entity is unsecured, interest-free and not repayable within twelve months from the reporting date.

12. TRADE RECEIVABLES

The Group normally applies credit terms to its customers according to industry practice together with consideration of its credibility, repayment history and years of establishment. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

The ageing analysis of trade receivables, net of provision, as at the reporting date, based on the date of recognition of the sale, is as follows:

	Current	**31-60 days**	**61-90 days**	**Over 90 days**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unaudited balance at 31 December 2011	**26,187**	**61,553**	**20,849**	**23,292**	**131,881**
Audited balance at 30 June 2011	71,625	22,706	7,705	14,448	116,484

13. TRADE PAYABLES

The ageing analysis of the trade payables at the reporting date is as follows:

	Current	**31-60 days**	**61-90 days**	**Over 90 days**	**Total**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unaudited balance at 31 December 2011	**79,209**	**25,084**	**10,662**	**1,799**	**116,754**
Audited balance at 30 June 2011	90,351	24,747	20,689	7,735	143,522

14. BANK LOANS, SECURED

At 31 December 2011, the Group's bank loans are as follows:

	Unaudited 31 December 2011	Audited 30 June 2011
	HK$'000	*HK$'000*
Secured bank loans:		
Portion of bank loans from banks due for repayment within one year	**314,841**	201,139
Portion of bank loans from banks due for repayment after one year which contain a repayable on demand clause	**32,055**	34,000
	346,896	235,139

14. BANK LOANS, SECURED (CONTINUED)

At 31 December 2011, the Group's banking facilities were supported by the following:

(a) legal charges over the Group's investment property and certain leasehold land and buildings; and

(b) corporate guarantees executed by the Company.

15. ADVANCE FROM A DIRECTOR

The loan is advanced from Dr. Chan Sing Chuk, Charles ("Dr. Chan"), who is a director of the Company with significant influence over the Company. The loan is unsecured, interest-bearing at 1.5% per annum and has no fixed terms of repayment. In the opinion of the Board, the amount will not be repayable within twelve months from the end of the reporting period, and therefore presented as non-current liabilities in the condensed consolidated statement of financial position as at 31 December 2011.

16. ISSUED CAPITAL

	Notes	**Number of ordinary shares of HK$0.01 each**	**Total HK$'000**
Authorised:			
At 30 June 2011 and 31 December 2011		35,000,000,000	350,000
Issued and fully paid:			
At 30 June 2011		3,128,303,340	31,283
Shares issued upon			
Issue of shares on acquisition of subsidiaries	(a)	1,764,705,880	17,647
Issue of subscription shares	(b)	217,647,050	2,177
At 31 December 2011 (Unaudited)		5,110,656,270	51,107

Notes:

(a) On 12 October 2011, the Company issued 1,764,705,880 ordinary shares of HK$0.01 each at price of HK$0.104 per share. The issuance of the new shares was used as part of the consideration for the acquisition of Big Bonus Group.

(b) On 23 November 2009, a subscription agreement was entered between the Company and an independent third party which agreed to subscribe for an aggregate of 217,647,050 new ordinary shares at a subscription price of HK$0.17 each upon the completion of the acquisition of Big Bonus Group. The subscription of the new shares was completed on 12 October 2011.

17. UNLISTED WARRANTS

During the six months ended 31 December 2011, the sale and purchase agreement ("S & P Agreement") as detailed in note 20 was duly completed and the exercise of the 199,421,964 units of Unlisted Warrants (the "Unlisted Warrants") became unconditional. In this regard, HK$35,338,000 of share-based compensation expenses in relation to the issue of the 199,421,964 units of Unlisted Warrants has been recognised in profit or loss for the period.

For the year ended 30 June 2010 HK$53,008,000 of share-based compensation expenses in relation to the issue of the 299,132,948 units of Unlisted Warrants had been recognised in profit or loss at the date of grant of the Unlisted Warrants. All the corresponding amounts of which had been credited to the warrant reserve. No liabilities were recognised due to share-based payment transactions.

Details of the issuance of the Unlisted Warrants and their basis of valuations were set out in the Company's 2011 Annual Report.

18. CAPITAL COMMITMENTS

	Unaudited At 31 December 2011 *HK$'000*	Audited At 30 June 2011 *HK$'000*
Contracted but not provided for:		
Properties under development classified as investment properties	**13,752**	13,832
Cash consideration in relation to the acquisition of subsidiaries	**–**	113,000
	13,752	126,832

19. OPERATING LEASE COMMITMENTS

As lessee

The Group leases certain of shops, office properties and staff quarters under operating lease arrangement. Leases for properties (including contingent rental) are negotiated at fixed rate or with reference to level of business and terms ranging from one to three years. At 31 December 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited At 31 December 2011 *HK$'000*	Audited At 30 June 2011 *HK$'000*
Within one year	**2,416**	2,296
In the second to fifth year, inclusive	**191**	140
	2,607	2,436

20. ACQUISITION OF SUBSIDIARIES

On 20 November 2009, the Company entered into the S & P Agreement with Benefit Well Investments Limited ("Benefit Well"), a company incorporated in the British Virgin Islands with limited liability and indirectly wholly-owned by Dr. Chan, to acquire 100% of the issued share capital of Big Bonus Group, which are principally engaged in mining and exploration of mineral reserves in the PRC, from Benefit Well. The acquisition will enable the Group to capture the sustained growth in global demand of the natural resources. Pursuant to the S & P Agreement and the supplemental agreement dated 30 November 2009, the total consideration for the aforesaid acquisition is HK$738,000,000 which is to be satisfied by cash consideration of HK$113,000,000, issuance of convertible notes of principal amount of HK$325,000,000 and issuance of a total of 1,764,705,880 consideration shares of principal amount of HK$300,000,000. The completion date on the S & P Agreement was on 12 October 2011, which is also the acquisition date for accounting purpose. Further details of which are set out in the Company's circular dated 25 January 2010.

At the completion date, the fair value of the shares to be issued was determined using the published closing price of HK$0.104, amounting to approximately HK$183,529,000. The fair value of the convertible notes of HK$127,619,000 was calculated using Binomial Option Pricing Model by BMI Appraisals Limited.

The fair value of identifiable assets and liabilities of the acquiree recognised as at the date of acquisition were as follows:

	Unaudited Fair Value	**Unaudited Carrying Amount**
	HK$'000	*HK$'000*
Mining right	1,017,663	78,493
Property, plant and equipment	60,038	59,848
Land use right	39,319	27,542
Other receivables	2,020	2,020
Bank balances and cash	38,613	38,613
Amounts due to related companies	(35,542)	(35,542)
Other payables	(95,382)	(95,382)
Shareholder's loan	(150,400)	(150,400)
Deferred tax liabilities	(237,784)	–
Net assets/(liabilities)	638,545	(74,808)
Shareholder's loan assigned to the Group	150,400	
Excess of interest in the net fair value of the net identifiable assets over the fair value of the total cost of acquisition of subsidiaries	(364,797)	
Total consideration	424,148	
Total consideration satisfied by:-		
Cash	113,000	
Issuance of new shares	183,529	
Issuance of convertible note	127,619	
	424,148	
Net cash outflow arising from the acquisition of subsidiaries:		
Cash consideration paid	113,000	
Cash and bank balance acquired	(38,613)	
	74,387	

21. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in this report, other significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

(a) Subcontracting fees of HK$3,079,000 (2010: HK$2,902,000) paid and payable to certain associates. The subcontracting fees are mutually negotiated between the Group and the associates.

(b) Compensation of key management personnel

Included in employee benefit expenses are key management personnel compensation and comprises the following categories:

	Unaudited Six months ended 31 December 2011	2010
	HK$'000	*HK$'000*
Short term employee benefits	**4,050**	3,788
Post-employment benefits	**162**	154
	4,212	3,942

(c) Outstanding balances due to related parties

	Unaudited 31 December 2011	Audited 30 June 2011
	HK$'000	*HK$'000*
Guangzhou Hengkun Company Limited	**33,629**	–
Multi Resources Enterprise Limited	**1,913**	–
	35,542	–

The amount payable to the related parties are interest free, unsecured and have no fixed terms of repayment.

Except for the aforesaid in notes 15 and 21(c), during the period and up to the date of this report, no other material related party transactions/connected transactions were entered into between the Group and related parties/connected persons of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group consolidated turnover for the six months ended 31 December 2011 recorded a slightly increase of 1.8% from last interim of HK$516,752,000 to HK$525,850,000. Profit attributable to equity owners of the Company of HK$247,779,000 which is mainly attributable to the significant gain on the acquisition of Big Bonus Group, increase of HK$236,271,000 when compare to the last interim profit of HK$11,508,000. Earnings per share rose to HK6.21 cents from HK0.37 cents in last interim period.

BUSINESS REVIEW AND PROSPECTS

During the period under review, export sales remain dull due to the declining macro environment in Europe, United States and United Kingdom. The European debt crisis remains a looming overcast upon consumer spending particularly in the luxury sector. Though the United States has shown slight improved sentiment, the pickup in momentum is yet to develop and recovery is still at a glacial pace. Despite overall unfavorable circumstances, the Group was able to increase our revenue slightly and simultaneously increase our gross profit margin. These results were mainly due to applying stringent cost control measure in PRC to mitigate the continuous escalating manufacturing costs in PRC. On the wholesale end, we have stepped up our branding efforts and continuously seeking out for strong licensing opportunities to increase the intrinsic value of our products to our customers. While our brands have slowly expanded across regions, we continue to seek out for new areas to explore.

As for the property investment business, the Group continue to maintain two property development projects in Hong Kong and PRC. These projects are currently in development. In respect of the project located at Nos. 236-242 Des Voeux Road Central, foundation works is due to completion in late 2012. The project occupies site area of approximately 302 square meters which will be developed into a commercial premise with GFA of approximately 4,527 square meters. Another development project is in Shanghai which the Group has 50% interest. The project occupied two parcels of land with a total site area of approximately 18,101 square meters and a GFA totalling of approximately 98,881 square meters. The Group intends to develop this site into an eleven-floored upscale multi-purpose property comprising of a large shopping mall, premium grade offices and car parking facilities. Foundation work of the project has started in early 2011 and the whole project is expected to be completed by 2014.

Last fall, the Group successfully completed the acquisition of Big Bonus Group in which a 20 year new gold mining license was granted on 7th September 2011. The Group will maintain a steady expansion strategy and is planning for a full scale feasibility study in 2012 to exploit the reported and untapped resource at Hongzhuang Mine. Separately, Henan Multi-Resources has been consolidating in preparation for resumption of production. The Group expects production and income from the operation will resume in 1st quarter 2012.

PROSPECTS

In 2012, we believe markets will remain volatile particularly in the European and United Kingdom markets. Jewellery export sales would most likely be soft. While reviewing our product range and offering high quality core program items we continue to employ resources in expanding our distribution network and other unchartered areas. Cost controls and providing value added service remain our key drivers in combating the challenging international markets ahead of us.

INTERIM DIVIDEND

The Board do not recommend the payment of an interim dividend for the six months ended 31 December 2011 (2010: HK$3,128,000).

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2011, the Group had a gearing ratio of 0.21 (30 June 2011: 0.19), which is net debt divided by total equity plus net debt. Net debt is calculated at the sum of bank borrowings and other borrowings less the cash and cash equivalents. Total cash and cash equivalents were HK$123,312,000 (30 June 2011: HK$49,867,000) which were mainly denominated in Hong Kong Dollars, US Dollars and British Pounds, while bank borrowings were HK$346,896,000 (30 June 2011: HK$235,139,000) which were mainly denominated in Hong Kong Dollar and Renminbi, other borrowings in respect of Convertible Notes, advance from a director, related parties and ultimate holding company approximately of HK$219,613,000 (30 June 2011: HK$58,534,000). The bank borrowings are secured by first legal charges over the Group's property under development classified as investment property, certain leasehold land and buildings and corporate guarantees executed by the Company.

In line with the Group's prudent financial management, the Board considered that the Group has sufficient working capital to meet its operational requirements.

PLEDGE OF ASSETS

As at 31 December 2011, the Group's property under development classified as investment property, certain leasehold land and buildings and land use rights with an aggregate net carrying value of HK$472,025,000 (30 June 2011: HK$469,032,000) were pledged to certain banks to secure general banking facilities granted to the Group.

CAPITAL STRUCTURE

On 12 October 2011, 1,764,705,880 new shares of the Company at a price of HK$0.104 per share has been issued upon completion of acquisition of Big Bonus Group. On the same date, the Company completed a share subscription of 217,647,050 new shares has been issued at a subscription price of HK$0.17 per share resulting net proceed of approximately HK$37,000,000. Thereafter, the total number of the Company's issued shares increased from 3,128,303,340 to 5,110,656,270 during the six months.

MATERIAL ACQUISITION OF SUBSIDIARIES

On 20 November 2009, the Company entered into a S & P Agreement with Benefit Well, a company indirectly wholly-owned by Dr. Chan to acquire 100% of the issued share capital of Big Bonus Group and the outstanding shareholder's loan. The principal business of Big Bonus Group is engaged in mining and exploration of mineral reserves in the PRC. The acquisition was completed on 12 October 2011 with fair value of total consideration of approximately HK$424,148,000. Please refer to the circular of the Company dated on 25 January 2010 for further details.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEMES

As at 31 December 2011, the Group employed a total of approximately 1,038 employees (30 June 2011: 1,010), the majority of whom are employed in the PRC. The Group's remuneration package for its employees is largely based on industry practice. The Company has adopted a share option scheme on 13 July 2010, under which the Company may grant options to eligible persons including directors and employees. No share option was granted pursuant to the scheme since its adoption.

EXPOSURE TO FINANCIAL RISK AND RELATED HEDGES

The Group utilises conservative strategies on its risk management and the market risk is kept to minimum. With the exception of the UK subsidiaries, all transactions and the borrowings of the Group are primarily denominated in US Dollar, Hong Kong Dollar and Renminbi. The risk of foreign exchange fluctuations is minimal. During the period, the Group made use of the foreign exchange forward contract in order to minimise the exchange rate risk as a result of fluctuation in British Pound. Management will continue to monitor the foreign exchange exposure and will take appropriate action when necessary. During the six months ended 31 December 2011, the Group has entered into certain foreign exchange forward contracts.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2011, the interests and short positions of the Directors and their associates 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 (the "SFO") as recorded in the register maintained by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as set out below:

Name of directors	Capacity	Number and class of shares held	Percentage Holdings
Chan Sing Chuk, Charles *(Note 1)*	Interest in a controlled Corporation	5,201,894,033 ordinary	101.785%
Cheng Siu Yin, Shirley *(Note 1)*	Interest in a controlled Corporation	5,201,894,033 ordinary	101.785%
Chan Wai Lap, Victor	Beneficial Owner	2,700,000 ordinary	0.053%
Chan Ping Kuen, Derek	Beneficial Owner	200,000 ordinary	0.004%

Name of directors	Capacity	Debenture
Chan Sing Chuk, Charles *(Note 2)*	Interest in a controlled Corporation	HK$383,170,000 *(Note 2)*
Cheng Siu Yin, Shirley *(Note 2)*	Interest in a controlled Corporation	HK$383,170,000 *(Note 2)*

Note:

1. Such interests are held as to (i) 5,063,395,220 shares by Tamar Investments Group Limited ("Tamar Investments"), which is a company wholly owned by Dr. Chan and Ms. Cheng Siu Yin, Shirley and include interests in the consideration Shares and the conversion Shares which have been issued to Tamar Investments on 12 October 2011 under the acquisition of Big Bonus Group (details disclosed in Note 20); and (ii) 138,498,813 Shares by Famous Key Holdings Limited ("Famous Key"), which is a company wholly owned by Dr. Chan and represent interest in the Conversion Shares as defined and disclosed in the circular of the Company dated 25 June 2010 (the "Circular") under the Famous Key Convertible Note (as defined and disclosed in the Circular). Dr. Chan and Ms. Cheng Siu Yin, Shirley, both being Directors, are the directors of Tamar Investments.

2. Such interest is held by (i) Tamar Investments in the convertible note in HK$325,000,000 principal amount (issued on 12 October 2011 under the acquisition of Big Bonus Group); and (ii) Famous Key in the Famous Key Convertible Note in HK$58,170,000 principal amount (issued on 30 March 2011 under the Macarthur Minerals Limited Acquisition). Tamar Investments is wholly owned by Dr. Chan and Ms. Cheng Siu Yin, Shirley as referred to in Note 1 and Famous Key is wholly owned by Dr. Chan as referred to in Note 1.

Except as disclosed above, at the reporting date, none of the Directors or their respective associates had any personal, family, corporate or other interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2011, no person, other than Dr. Chan and Ms. Cheng Siu Yin, Shirley, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest in 5% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DISCLOSURE OF ADVANCE TO AN ENTITY UNDER RULE 13.20 OF THE LISTING RULES

As at 31st December 2011, the Group had made advances to Wealth Plus Developments Limited ("Wealth Plus"), a jointly controlled entity of the Company, in the aggregate amount of HK$367,300,000. The advances had been granted as working capital for the development of a commercial property on two parcels of land in Shanghai, currently held by a wholly-owned subsidiary of Wealth Plus. The outstanding advances is interest free, unsecured and has no fixed repayment term.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Corporate Governances Practices

The Company adopted all the Code Provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 to the Listing Rules and has compiled with all the applicable Code Provisions throughout the six months ended 31 December 2011 except for the following derivations:

1. **Code provision A.2.1**

   Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Dr. Chan currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term strategies.

2. **Code provision A.4.1**

   Code provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election. The Non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's Annual General Meeting. However, under article 115(D), all Directors including Non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's Annual General Meeting at least once every three years. The Board considers that the deviation from Code Provision A.4.1 is not material as Non-executive Directors are subject to retirement by rotation and re-election in view of small number of total directors of the Company, the Directors will consider to adopt the Code Provision should the number of Directors increase substantially.

Save as disclosed above, the Company considers that sufficient measures have been taken to ensure that the corporate governance practices of the Company are in line with the Code Provisions.

CHANGE IN INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes of information on directors of the Company are as follows:

Mr. Cao Kuangyu has resigned as a Non-executive director of the Company with effect from 30 December 2011.

Mr. Sze Irons was appointed as a Non-executive director of China Weaving Materials Holdings Limited (stock code: 3778) on 4 May 2011 which then listed on the Main Board of the Stock Exchange in December 2011. He was also appointed as the president of the Chinese Manufacturers' Association of Hong Kong effective 1 January 2012. Mr. Sze was appointed the Justice of Peace by the Government of Hong Kong in 2011.

Mr. Cheung Chi Fai, Frank was appointed as an Company Secretary and Chief Financial Officer of China Weaving Materials Holdings Limited (stock code:3778) in May 2011 which then listed on the Main Board of the Stock Exchange in December 2011.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by Directors set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions in relation to the accounting period covered by this interim report. The Company confirms that, having made specific enquiry of all Directors, the Directors have compiled with the required standards of dealing as set out therein.

AUDIT COMMITTEE

The Audit Committee of the Company comprises four independent non-executive Directors of the Company.

The Audit Committee has discussed the Group's accounting policies and basis adopted, the financial and internal control process of the Group and has reviewed the unaudited interim financial statements for the six months ended 31 December 2011. The Audit Committee has approved the unaudited interim financial statements.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 27 February 2012