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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00513)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2011

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		**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		**(35,338)**	–

	Notes	Unaudited Six months ended 31 December **2011** ***HK$'000***	 2010 *HK$'000*
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
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		**1,031,239**	–
Interests in associates		**2,797**	2,333
Interests in jointly controlled entities		**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	10	**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	11	**(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		**(35,542)**	–
Bank loans, secured		**(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

	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		**(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		**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

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 continue 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 quantity 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.

3. SEGMENT INFORMATION (continued)

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.

	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	2010
	HK$'000	*HK$'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	2010
	HK$'000	*HK$'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. 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

11. 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

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.

BUSINESS REVIEW AND PROSPECTS (continued)

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 sale & purchase agreement ("S & P Agreement") with Benefit Well Investments Limited ("Benefit Well"), a company indirectly wholly-owned by Dr. Chan Sing Chuk, Charles ("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.

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.

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

As at the date of this announcement, Dr. Chan Sing Chuk, Charles BBS, JP, Ms. Cheng Siu Yin, Shirley, Ms. Chan Wai Kei, Vicki and Mr. Chan Wai Lap, Victor are executive Directors, Mr. Fang Gang is a non-executive Director, Mr. Yu Shiu Tin, Paul BBS, MBE, JP, Mr. Chan Ping Kuen, Derek, Mr. Sze, Irons, JP and Mr. Cheung Chi Fai, Frank are independent non-executive Directors.