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**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 2016**

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 2016 together with the comparative figures for the corresponding period in 2015 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME**

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2016</b>	<b>2015</b>
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
			(Restated)
<b>Continuing operations</b>			
Revenue	4	<b>277,350</b>	308,268
Cost of sales		<b>(236,268)</b>	(256,241)
Gross profit		<b>41,082</b>	52,027
Selling and distribution costs		<b>(6,318)</b>	(6,792)
Administrative expenses		<b>(54,841)</b>	(48,422)
Other operating income		<b>6,667</b>	464
Impairment loss on available-for-sale financial assets		<b>(6,485)</b>	(457)
Change in fair value of financial assets at fair value through profit or loss		<b>403</b>	(1,653)
Income arising from amortising the financial guarantee liabilities		<b>2,878</b>	1,543
Share-based compensation		<b>(2,140)</b>	(2,390)
Finance costs	5	<b>(7,888)</b>	(7,837)
Share of results of joint ventures		<b>(11,955)</b>	(3,804)
<b>Loss before income tax</b>	6	<b>(38,597)</b>	(17,321)
Income tax credit	7	<b>2,220</b>	212
<b>Loss for the period from continuing operations</b>		<b>(36,377)</b>	(17,109)

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME (CONTINUED)**

		<b>Unaudited</b>	
		<b>Six months ended</b>	
		<b>31 December</b>	
		<b>2016</b>	2015
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
			(Restated)
<b>Discontinued operation</b>			
Profit/(Loss) for the period from discontinued operation	8	<u>46,095</u>	<u>(18)</u>
<b>Profit/(Loss) for the period</b>		<u>9,718</u>	<u>(17,127)</u>
<b>Other comprehensive income for the period, net of tax</b>			
<b>Items that may be subsequently reclassified to profit or loss:</b>			
Change in fair value of available-for-sale financial assets, net		(147)	(912)
Reclassification from equity to profit or loss on impairment of available-for-sale financial assets		–	457
Exchange differences on translation of foreign operations, associates and joint ventures		<u>(51,405)</u>	<u>(82,362)</u>
Other comprehensive income for the period, net of tax		<u>(51,552)</u>	<u>(82,817)</u>
<b>Total comprehensive income for the period</b>		<u><b>(41,834)</b></u>	<u><b>(99,944)</b></u>
<b>Profit/(Loss) for the period attributable to:</b>			
Owners of the Company:			
Continuing operations		(36,524)	(17,232)
Discontinued operation		<u>46,095</u>	<u>(18)</u>
		<b>9,571</b>	<b>(17,250)</b>
Non-controlling interests		<u>147</u>	<u>123</u>
		<u><b>9,718</b></u>	<u><b>(17,127)</b></u>

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS  
AND OTHER COMPREHENSIVE INCOME (CONTINUED)**

	<b>Unaudited</b>	
	<b>Six months ended</b>	
	<b>31 December</b>	
	<b>2016</b>	2015
<i>Notes</i>	<b><i>HK\$'000</i></b>	<i>HK\$'000</i>
		(Restated)
<b>Total comprehensive income for the period attributable to:</b>		
Owners of the Company	<b>(41,981)</b>	(100,067)
Non-controlling interests	<u>147</u>	<u>123</u>
	<b><u>(41,834)</u></b>	<b><u>(99,944)</u></b>
<b>Earnings/(Loss) per share for profit/(loss) attributable to the owners of the Company during the period</b>		
	<i>10</i>	
From continuing and discontinued operations		
Basic and diluted	<b><u>HK0.14 cents</u></b>	<b><u>HK(0.25) cents</u></b>
From continuing operations		
Basic and diluted	<b><u>HK(0.53) cents</u></b>	<b><u>HK(0.25) cents</u></b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited At 31 December 2016 <i>Notes</i>	Audited At 30 June 2016 <i>HK\$'000</i>
<b>ASSETS AND LIABILITIES</b>		
<b>Non-current assets</b>		
Property, plant and equipment	90,786	94,431
Land use rights	32,642	34,687
Investment property	–	472,930
Mining right	627,184	656,334
Interests in associates	–	–
Interests in joint ventures	700,557	708,636
Available-for-sale financial assets	15,759	22,393
Deferred tax assets	5,762	5,762
	1,472,690	1,995,173
<b>Current assets</b>		
Property under development	–	576,843
Inventories	196,410	221,799
Trade receivables	11 108,534	93,231
Prepayments, deposits and other receivables	11,760	17,478
Financial assets at fair value through profit or loss	4,624	4,222
Derivative financial instruments	151	99
Due from joint ventures	51	167
Cash and cash equivalents	456,754	45,632
	778,284	959,471
<b>Current liabilities</b>		
Trade payables	12 (88,697)	(126,705)
Other payables and accruals	(40,254)	(75,948)
Bank loans	(189,000)	(571,548)
Obligation under finance leases	(389)	(379)
Due to related companies	(2,622)	(2,744)
Financial guarantee liabilities	(6,929)	(3,411)
Loan from a controlling shareholder	(4,464)	–
Provision for tax	(6,849)	(2,298)
	(339,204)	(783,033)
<b>Net current assets</b>	439,080	176,438
<b>Total assets less current liabilities</b>	1,911,770	2,171,611

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)**

	<b>Unaudited</b>	Audited
	<b>At</b>	At
	<b>31 December</b>	30 June
	<b>2016</b>	2016
<i>Notes</i>	<b><i>HK\$'000</i></b>	<b><i>HK\$'000</i></b>
<b>Non-current liabilities</b>		
Obligation under finance leases	(494)	(691)
Due to related companies	(76,536)	(165,346)
Financial guarantee liabilities	(11,548)	(2,245)
Loan from a controlling shareholder	–	(131,670)
Deferred tax liabilities	(138,945)	(147,718)
	<u>(227,523)</u>	<u>(447,670)</u>
<b>Net assets</b>	<b><u>1,684,247</u></b>	<b><u>1,723,941</u></b>
<b>EQUITY</b>		
Share capital	560,673	560,673
Reserves	1,129,583	1,169,424
	<u>1,690,256</u>	<u>1,730,097</u>
<b>Equity attributable to the owners of the Company</b>	<b>1,690,256</b>	<b>1,730,097</b>
<b>Non-controlling interests</b>	<b>(6,009)</b>	<b>(6,156)</b>
	<u>1,684,247</u>	<u>1,723,941</u>
<b>Total equity</b>	<b><u>1,684,247</u></b>	<b><u>1,723,941</u></b>

# NOTES TO THE CONDENSED CONSOLIDATED 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 (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited.

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“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 condensed consolidated interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 30 June 2016.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements of the Group for the year ended 30 June 2016. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The financial information relating to the year ended 30 June 2016 that is included in the condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the “Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended 30 June 2016 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs and amendments which are relevant to and effective for the Group's interim financial statements for interim period beginning on 1 July 2016, issued by the HKICPA.

HKFRSs (Amendments)	Annual Improvements 2012-2014 Cycle
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations

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

The following new and revised HKFRSs, potentially relevant to the Group's financial statements, that have been issued, but are not yet effective in the financial period of which the condensed consolidated interim financial statements were prepared, have not been early adopted by the Group.

Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>
HKFRS 9 (2014)	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKFRS 15	Clarification to HKFRS15 – Revenue from Contracts with Customers <sup>2</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019

<sup>4</sup> No mandatory effective date yet determined but is available for early adoption

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 3. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to assess performance and allocate resources.

The chief operating decision-maker has been identified as the Company's executive directors. The executive directors have identified the Group's three (2015: three (restated)) business lines as operating segments under continuing operations.

Certain comparative figures on the measurement of the segment results have been restated to conform to the current period's presentation.

The Group has identified the following reportable segments:

- Design, manufacturing, marketing and trading of fine jewellery and diamonds;
- Mining operation; and
- Investment

During the period, the Group completed the disposal of the entire equity interest of Well Friendship Investment Limited ("Well Friendship"), an indirectly wholly-owned subsidiary of the Company which carried out all the property investment of the Group. Accordingly, the property investment was classified as a discontinued operation in the segment information reported as below, details of which are set out in note 8. The disposal was completed on 30 November 2016.

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

	Unaudited Six months ended 31 December									
	Design, manufacturing, marketing and trading of fine jewellery and diamonds		Investment		Mining operation		Total from continuing operations		Discontinued operation	
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000 (Restated)	2016 HK\$'000	2015 HK\$'000
Segment Revenue:										
Sales to/revenue from external parties	275,383	308,129	206	139	1,761	–	277,350	308,268	133,500	–
Segment results	(8,691)	8,984	(6,140)	(2,164)	(6,296)	(8,597)	(21,127)	(1,777)	28,349	(18)
Gain on disposal of a subsidiary									22,291	–
Share-based compensation							(2,140)	(2,390)		
Unallocated income/(expenses)							518	(3,957)		
Income arising from amortising the financial guarantee liabilities							2,878	1,543		
Finance costs							(6,771)	(6,936)		
Share of results of joint ventures							(11,955)	(3,804)		
(Loss)/Profit before income tax							(38,597)	(17,321)	50,640	(18)



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts and dividend income from investments.

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

	Unaudited	
	Six months ended 31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Continuing operations</b>		
Sale of goods	275,383	308,129
Sale of gold ores	1,761	–
Dividend income from investments	206	139
	277,350	308,268
	277,350	308,268

### 5. FINANCE COSTS

	Unaudited	
	Six months ended 31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
<b>Continuing operations</b>		
Interest charges on:		
Bank loans	3,780	3,385
Interest expenses on loan from a related company	870	608
Interest expenses on loan from a controlling shareholder	797	1,082
Finance charges on obligation under finance leases	23	33
Imputed interest expenses arising from amounts due to related companies	2,418	2,729
	7,888	7,837
	7,888	7,837
<b>Discontinued operation</b>		
Interest charges on:		
Bank loans	2,321	2,599
Less: bank loan interest capitalised in investment property and property under development	(2,321)	(2,599)
	–	–
	–	–

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 6. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	<b>Unaudited</b>	
	<b>Six months ended 31 December</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Continuing operations</b>		
Cost of inventories sold	<b>236,268</b>	256,241
Depreciation of property, plant and equipment	<b>3,050</b>	3,932
Amortisation of land use rights	<b>655</b>	702
Amortisation of mining right	<b>141</b>	–
Minimum lease payments under operating leases		
on land and buildings	<b>2,622</b>	3,117
Provision for inventories*	<b>4,993</b>	–
Provision for trade receivables	<b>730</b>	811
Net foreign exchange loss	<b>7,507</b>	517
Fair value gain on derivative financial instruments		
– forward currency contracts	<b>(180)</b>	(189)
Income arising from derecognition of		
financial guarantee liabilities	<b>(5,087)</b>	–
Written off of property, plant and equipment	<b>165</b>	120
Loss on disposal of property, plant and equipment	<b>23</b>	–
	<b>236,268</b>	256,241

\* *Amount included in cost of sales*

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

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

The amount of income tax (credit)/expense charged to the condensed consolidated statement of profit or loss and other comprehensive income represents:

	Unaudited	
	Six months ended 31 December	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
<b>Continuing operations</b>		
Current tax		
People's Republic of China	<u>24</u>	<u>(218)</u>
	<b>24</b>	<b>(218)</b>
Over-provision in prior years		
Hong Kong	<u>–</u>	<u>(206)</u>
	<b>–</b>	<b>(206)</b>
Deferred taxation		
People's Republic of China	<u>(2,244)</u>	<u>212</u>
<b>Income tax (credit) from continuing operations</b>	<b><u>(2,220)</u></b>	<b><u>(212)</u></b>
<b>Discontinued operation</b>		
Current tax		
Hong Kong	<u>4,545</u>	<u>–</u>
<b>Income tax expense from discontinued operation</b>	<b><u>4,545</u></b>	<b><u>–</u></b>

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

## **NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)**

### **8. DISCONTINUED OPERATION**

On 19 September 2016, the Group entered into a sale and purchase agreement (the “S&P”) pursuant to which the Group has agreed to sell the entire issued equity interest in Well Friendship, an indirect wholly-owned subsidiary of the Company, and to assign the inter-group loans owing by Well Friendship to the Group to an independent third party at an aggregate consideration of HK\$1,133,500,000, subject to adjustments on certain assets and liabilities and the reduction of a total consideration of HK\$133,500,000 upon the completion of the sale of the 3 pre-sold floors as at the completion date of the disposal (“Disposal”). The Disposal constitutes a very substantial disposal of the Company under the Listing Rules.

The operation of Well Friendship represented the entire business segment of property investment of the Group. Therefore, the results together with the related gain on Disposal have been presented as a discontinued operation in the condensed consolidated financial statements for the six months ended 31 December 2016. The comparative consolidated statement of profit or loss and other comprehensive income, profit before income tax stated in the consolidated statements of cash flows and the relevant disclosure notes for profit or loss items have been re-stated for discontinued operations.

The Disposal was completed on 30 November 2016 and the adjusted consideration received was HK\$993,627,000 after adjustments in accordance with the S&P.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 8. DISCONTINUED OPERATION (CONTINUED)

- (A) Net assets of Well Friendship exclusion of the 3 pre-sold floors at the date of the disposal on 30 November 2016 are as follows:–

	<i>HK\$'000</i>
<b>Net assets disposed of:</b>	
Investment property	477,830
Property under development	488,559
Prepayment, deposits and other receivables	462
Cash and cash equivalents	479
Inter-company loans	(195,955)
Bank loan	(242,370)
Other payable and accruals	(2,850)
Taxation	(4,545)
	<u>521,610</u>
<b>Net assets disposed of:</b>	
	<u><u>521,610</u></u>
<b>Gain on disposal of a subsidiary:</b>	
Consideration received	993,627
Net assets disposed of	(521,610)
Repayment of bank loan in connection with the Disposal ( <i>Note</i> )	(242,370)
Disposal of inter-company loans	(195,955)
Cost incurred during disposal	(11,401)
	<u>22,291</u>
<b>Gain on disposal of a subsidiary:</b>	
	<u><u>22,291</u></u>
<b>Net cash inflow arising from disposal</b>	
Cash consideration	993,627
Less: Cash and cash equivalents	(479)
Cost Incurred by the Group during disposal	(11,401)
	<u>981,747</u>
Total cash inflows from the Disposal	<u><u>981,747</u></u>

*Note:* The bank loan of HK\$242,370,000 was settled by the Group upon the receipt of consideration from the purchaser upon completion.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 8. DISCONTINUED OPERATION (CONTINUED)

(B) The results and cash flow from discontinued operation arising from the disposal of 3 pre-sold floors are analysed as follows:–

(i) An analysis of the results from discontinued operation is as follows:–

	<b>Unaudited</b>	
	<b>Six months ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Revenue	133,500	–
Cost of sales	<u>(103,834)</u>	<u>–</u>
	29,666	–
Administrative expenses	<u>(1,317)</u>	<u>(18)</u>
Profit before income tax	28,349	(18)
Income tax expense	<u>(4,545)</u>	<u>–</u>
<b>Profit for the period from discontinued operation</b>	<b>23,804</b>	<b>(18)</b>
<b>Gain on disposal of discontinued operation</b>		
<i>(Note 8(A))</i>	<u>22,291</u>	<u>–</u>
Profit attributable to equity holders of the Company from discontinued operation	<u><b>46,095</b></u>	<u><b>(18)</b></u>

(ii) An analysis of cash flows from discontinued operation is as follows:–

	<b>Unaudited</b>	
	<b>Six months ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
Net cash used in operating activities	(91,383)	(20,699)
Net cash generated from/(used in) investing activities	124,722	(11,329)
Net cash (used in)/generated from financing activities	<u>(33,450)</u>	<u>32,000</u>
Net cash outflow for the period from discontinued operation	<u><b>(111)</b></u>	<u><b>(28)</b></u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 9. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2016 (2015: Nil).

### 10. EARNINGS/(LOSS) PER SHARE

The calculations of basic and diluted earnings/(loss) per share attributable to the owners of the Company are based on the following data:

	<b>Unaudited</b>	
	<b>Six months ended 31 December</b>	
	<b>2016</b>	<b>2015</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
		(Restated)
Profit/(Loss) attributable to the owners of the Company		
– Continuing operations	(36,524)	(17,232)
– Discontinued operation	46,095	(18)
	<u>9,571</u>	<u>(17,250)</u>
	<b>2016</b>	<b>2015</b>
	<b>Number of shares</b>	
Weighted average number of ordinary shares for the purpose of basic earnings/(loss) per share	6,831,182,580	6,831,182,580
Effect of dilutive potential ordinary shares in respect of share options	<u>1,056,759</u>	–
Weighted average number of ordinary shares for the purpose of diluted earnings/(loss) per share	<u>6,832,239,339</u>	<u>6,831,182,580</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 10. EARNINGS/(LOSS) PER SHARE (CONTINUED)

#### (a) For continuing operations

The calculation of basic loss per share from continuing operations is based on the loss of HK\$36,524,000 attributable to the owners of the Company for the six months ended 31 December 2016 (2015: Loss of HK\$17,232,000 (restated)) and on the weighted average of 6,831,182,580 (2015: 6,831,182,580) ordinary shares in issue during the period.

For the six months ended 31 December 2016 and 2015, the outstanding share options of the Company has not been included in the computation of diluted loss per share, as the effect of exercise of the Company's outstanding share options is anti-dilutive at the loss from continuing operations. Therefore, the basic and diluted loss per share calculation from continuing operations are equal.

#### (b) For discontinued operation

Basic earnings per share from discontinued operation is based on the profit of HK\$46,095,000 (2015: loss HK\$18,000 (restated)) attributable to the owners of the Company and the denominators used are the same as those detailed above for both earnings/(loss) per share.

For the six months ended 31 December 2016, diluted earnings per share from discontinued operation is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential ordinary shares granted under the Company's share option scheme.

The basic and diluted loss per share from discontinued operation are the same for the six months ended 31 December 2015, as the Company's outstanding share options are anti-dilutive and therefore have not been included in the calculation of the dilutive loss per share.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

### 11. TRADE RECEIVABLES

The Group normally grants credit terms to its customers according to industry practice together with consideration of their creditability, 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.

An 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:

	<b>Current</b> <i>HK\$'000</i>	<b>31-60 days</b> <i>HK\$'000</i>	<b>61-90 days</b> <i>HK\$'000</i>	<b>Over 90 days</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Unaudited balance at 31 December 2016	<u><u>21,064</u></u>	<u><u>31,362</u></u>	<u><u>18,076</u></u>	<u><u>38,032</u></u>	<u><u>108,534</u></u>
Audited balance at 30 June 2016	<u><u>30,544</u></u>	<u><u>22,771</u></u>	<u><u>12,571</u></u>	<u><u>27,345</u></u>	<u><u>93,231</u></u>

### 12. TRADE PAYABLES

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

	<b>Current</b> <i>HK\$'000</i>	<b>31-60 days</b> <i>HK\$'000</i>	<b>61-90 days</b> <i>HK\$'000</i>	<b>Over 90 days</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
Unaudited balance at 31 December 2016	<u><u>25,560</u></u>	<u><u>17,717</u></u>	<u><u>13,281</u></u>	<u><u>32,139</u></u>	<u><u>88,697</u></u>
Audited balance at 30 June 2016	<u><u>37,358</u></u>	<u><u>25,082</u></u>	<u><u>17,717</u></u>	<u><u>46,548</u></u>	<u><u>126,705</u></u>

## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **OPERATING RESULTS**

The Group's consolidated revenue from continuing operations for the six months ended 31 December 2016 recorded a decrease of approximately 10% from HK\$308,268,000 for last interim period to HK\$277,350,000. During the period under review, loss from continuing operations attributable to owners of the Company was HK\$36,524,000, as compare to last interim loss of HK\$17,232,000 (restated). The increase in loss of approximately HK\$19,292,000 was mainly due to (i) a decrease in revenue and gross profit of approximately HK\$30,900,000 and HK\$10,945,000 respectively; (ii) an impairment loss on available-for-sale financial asset of approximately HK\$6,485,000; and (iii) an increase in share of loss of joint ventures of approximately HK\$8,151,000. During the period, the Group recorded a one-off gain arising from the disposal of a subsidiary of the Company classified as discontinued operation which amounted to HK\$46,095,000. For the six months ended 31 December 2016, basic earnings per share for continuing and discontinued operations were HK0.14 cents (2015: basic loss per share of HK0.25 cents (restated)).

### **BUSINESS REVIEW AND PROSPECTS**

In the period under review, the Group's trading of fine jewellery and diamond business recorded a decrease in revenue of approximately HK\$32,746,000 or 10.6% from HK\$308,129,000 for the six months ended 31 December 2015 to HK\$275,383,000 for the corresponding period in 2016. The fine jewellery and diamond polishing business continued to be soft as the global economic and political environment remained unstable. With the political uncertainties in many major markets as well as the currency fluctuations, consumer demand for luxury goods has weakened. While we remain cautious and conservative on the market outlook, we aim to further strengthen our market position through continual innovation and improvement in our products and services to our customers. Furthermore, the Group is reviewing its various operations and will seek to streamline its businesses in order to provide higher return to the shareholders.

In property investment, the Group has disposed of the entire equity interest in Well Friendship Investment Limited ("Well Friendship"), an indirect wholly-owned subsidiary of the Company, which holds "Continental Place", a property located at No. 236-242 Des Voeux Road Central, Hong Kong. The disposal was completed on 30 November 2016 at a total consideration of approximately HK\$1,133,500,000 (including the 3 pre-sold floors of HK\$133,500,000 and subject to adjustment) and the Group recognised a gain on disposal of approximately HK\$46,095,000. The operation of Well Friendship represented the entire business segment of property investment of the Group, and accordingly, the results together with the related gain on the disposal have been presented as a "discontinued operation" in the condensed consolidated financial statement for the six months ended 31 December 2016.

In the PRC, the 50% joint venture project located in Yangpu District of Shanghai – “Bauhinia Square”, is an eleven-floored shopping mall, with a total gross floor area of approximately 97,265 sq. m. and over 500 parking spaces. Bauhinia Square with the underground subway connected directly to its basement has just celebrated its first year of opening. Retail space are over 95% leased out while foot traffic remains steady in the mall. During the period under review, the Group recorded a share of loss of joint ventures of approximately HK\$11,955,000, increased by approximately HK\$8,151,000, compared to the share of loss of HK\$3,804,000 for the same period of last year. Such increase in loss was mainly attributable to (i) financial guarantee expenses for renewing a banking facility of RMB773,300,000 and (ii) an unrealised exchange loss resulting from depreciation of Reminbi against Hong Kong dollars during the period.

In relation to the mining segment, mining operation was suspended in the Hongzhuang Gold Mine. The preliminary exploration was identified a new vein with promising grade at the north eastern part of the Yuanling site. Second phase of the exploration to increase the geological confidence of the new vein was carried out during the period and is expected to continue in the coming year.

## **PROSPECTS**

Looking ahead to 2017, it is expected that the challenging environment in the luxury market shall persist and the road to recovery will still be bumpy. Amidst the challenges, the Group will strengthen its relationship with the customers, continuously improve its operation efficiencies, and explore any new markets and opportunities. In view of the continual deteriorating performance of the diamond polishing business in recent years, the management will closely monitor and evaluate the business and may take appropriate strategies. The Group will maintain its status as one of the leading jewellery companies in Hong Kong. The management will also seek other business or investment opportunities in order to realise a more attractive return on equity for its shareholders.

## **IMPAIRMENT LOSS OF AVAILABLE-FOR-SALE FINANCIAL ASSETS**

On 15 January 2015, a subsidiary of the Company entered into a subscription agreement to subscribe for 55,556 shares in equity interest of a technology company (the “Technology Company”) at a consideration of US\$1,000,000 (equivalent to approximately to HK\$7,754,000). The Technology Company is mainly engaged in hardware and software technologies relating to diamonds, diamond packaging and diamond marketing development business. The Group holds the interest in the Technology Company for long-term investment and accounts for it as “available-for-sale financial assets” in non-current assets.

Taking into consideration the fact that the Technology Company had incurred substantial operating losses since its incorporation in 2014, the Board considered it is appropriate to make an impairment loss of HK\$6,485,000 (2015: Nil), representing the difference between the investment cost and the fair value of the equity investment in the Technology Company.

## **INTERIM DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2016 (2015: Nil).

## **LIQUIDITY, FINANCIAL RESOURCES AND GEARING**

As at 31 December 2016, the Group’s gearing ratio was zero (30 June 2016: 0.32), which is calculated as net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank borrowings and other borrowings less cash and cash equivalents. The Group maintained a strong financial position with cash and cash equivalents of HK\$456,754,000 (30 June 2016: HK\$45,632,000) which were mainly denominated in Hong Kong Dollar, US Dollar, Renminbi and British Pound. Bank loans were HK\$189,000,000 (30 June 2016: HK\$571,548,000), which were mainly denominated in Hong Kong Dollar. Other borrowings in respect of amounts due to related companies and loan from a controlling shareholder were approximately of HK\$83,622,000 (30 June 2016: HK\$299,760,000). The bank loans are secured by first legal charges over the Group’s certain leasehold land and buildings and land use rights and guaranteed by corporate guarantees executed by the Company.

During the period, the Group received net cash amounted to approximately HK\$1,070,000,000 from the disposal of Well Friendship and 3 pre-sold floors as disclosed in note 8 to the financial statement. The net proceeds were used as to (i) approximately HK\$282,000,000 for releasing the mortgage of the property – Continental Place; (ii) approximately HK\$217,000,000 for repaying part of the loans owing by the Group to its controlling shareholders and company controlled or related to its controlling shareholders; (iii) approximately HK\$117,000,000 for repaying other bank borrowings of the Group; and (iv) the remaining balance for general working capital of the Group and other investment opportunities that might arise in future and would bring substantial value to the Group.

The substantial increase in the Group's cash and cash equivalent and the reduction in borrowing as at 31 December 2016 were mainly attributable to the net proceeds received from the disposal of Well Friendship. With the cash yet to be utilised and in line with the Group's prudent financial management, the Directors considered that the Group has sufficient working capital to meet its ongoing operational requirements.

## **PLEDGE OF ASSETS**

As at 31 December 2016, the Group's certain leasehold land and buildings and land use rights with an aggregate net carrying value of HK\$14,387,000 (30 June 2016: HK\$1,065,250,000) were pledged to certain banks to secure general banking facilities granted to the Group.

## **CONTINGENT LIABILITIES**

The Company has provided guarantees amounting to HK\$189,000,000 (30 June 2016: HK\$571,548,000) with respect to bank loans to its subsidiaries. Guarantees to the extent of RMB366,287,000 (equivalent to approximately HK\$408,739,000) (30 June 2016: RMB371,537,000 (equivalent to approximately HK\$433,769,000)) was also given by the Company in favour of a bank in respect of the term loan facilities granted to a subsidiary of a joint venture of the Company. Under the guarantees, the Company would be liable to pay the banks if the banks are unable to recover the loans. At the reporting date, no provision for the Company's obligation under the guarantee contract was made as the directors considered that it was unlikely the repayment of the loans would be in default.

## **CAPITAL STRUCTURE**

All the Group's borrowings are denominated in Hong Kong Dollar. Interest is determined on the basis of the Hong Kong Interbank Offering Rate or Prime Rate for Hong Kong Dollar borrowings. The Group also made use of foreign exchange forward contracts in order to minimise exchange rate risk as a result of the fluctuation in British Pound. There was no change to the Group's capital structure during the six months ended 31 December 2016. In light of the current financial position of the Group and provided that there is no unforeseeable circumstance, the management does not anticipate the need to change the capital structure.

## **NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME**

As at 31 December 2016, the Group employed a total of approximately 925 employees (30 June 2016: 968) with the majority in the PRC. The Group's remuneration to its employees is largely based on common industrial practice. The Company adopted a share option scheme on 13 July 2010, under which the Company may grant options to eligible persons including directors and employees.

On 3 November 2016, the Company granted 40,000,000 share options to certain directors at an exercise price of HK\$0.149 per share. Since the adoption of the share option scheme and up to 31 December 2016, 120,000,000 share options have been granted to certain directors of the Company at an exercise price of HK\$0.138 or HK\$0.121 or HK\$0.245 or HK\$0.149, of which, 10,000,000 share options have been exercised.

## **EXPOSURE TO FINANCIAL RISK AND RELATED HEDGES**

The Group utilises conservative strategies on its financial risk management and the market risk had been kept to a 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. During the period, the Group had entered into certain foreign exchange forward contracts in order to minimise the exchange rate risk as a result of the fluctuation in British Pound. Management will continue to monitor the foreign exchange risk in British Pound and recent fluctuation in Renminbi and will take appropriate actions when necessary.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2016.

## **CORPORATE GOVERNANCE AND OTHER INFORMATION**

### **Corporate Governance Practices**

The Company adopted all the Code Provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules and has complied with all the applicable Code Provisions throughout the six months ended 31 December 2016 except for the following deviations:

#### **1. Code Provision A.2.1**

Code Provision A.2.1 provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

During the period, Dr. Chan Sing Chuk, Charles (“Dr. Chan”) was the Chairman of the Board. Dr. Chan oversaw the direction of the Group and also provided leadership for the Board. He ensured that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. Dr. Chan was also responsible to ensure that all directors were properly briefed on issues arising at Board meetings and that all directors received adequate information, which must be complete and reliable, in a timely manner. Ms. Cheng Siu Yin, Shirley (“Ms. Cheng”), wife of Dr. Chan, is the Managing Director of the Company. She is responsible for the day-to-day management and marketing activities of the Group.

With effect from 1 January 2017, Dr. Chan stepped down as Chairman of the Board (the “Chairman”) but remains an executive director of the Company and Mr. Chan Wai Lap, Victor, an executive director of the Company, was appointed as the Chairman. Mr. Victor Chan is the son of Dr. Chan and Ms. Cheng.

Although the Company does not have a post of Chief Executive Officer, the Board considers that there is adequate segregation of duties within the Board to ensure a balance of power and authority.

## **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.

Independent Non-executive Directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company's Annual General Meeting (the "AGM") at least once every three years in accordance with articles 115(A) and 115(D) of the Articles of Association of the Company. The Board considers that the deviation from Code Provision A.4.1 is not material as non-executive directors are subjected to retirement by rotation at least once in every three years and re-election.

## **3. Code Provision C.2.5**

Code Provision C.2.5 provides that the issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function.

The Company does not have an internal audit function during the six months ended 31 December 2016. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organisation structure and the close supervision of the management could provide sufficient internal control and risk management for the Group. The audit committee of the Board regularly reviews the effectiveness of the internal control systems and risk management of the Group. The Board would review the need to set up an internal audit function on an annual basis.

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 of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. The Company has made specific enquiry with all directors and all of them have confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 31 December 2016.

## **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 control, risk management and internal control systems of the Group and has reviewed the unaudited consolidated interim financial statements for the six months ended 31 December 2016. The Audit Committee has approved the unaudited consolidated interim financial statements.

On behalf of the Board  
**Continental Holdings Limited**  
**Chan Wai Lap, Victor**  
*Chairman*

Hong Kong, 27 February 2017

*As at the date of this announcement, Mr. Chan Wai Lap, Victor, Dr. Chan Sing Chuk, Charles, BBS, JP, Ms. Cheng Siu Yin, Shirley, Ms. Chan Wai Kei, Vicki and Mr. Wong Edward Gwong-hing are Executive Directors, Mr. Yam Tat Wing is a Non-executive Director and Mr. Yu Shiu Tin, Paul, BBS, MBE, JP, Mr. Chan Ping Kuen, Derek, Mr. Sze Irons, BBS, JP and Mr. Cheung Chi Fai, Frank are Independent Non-executive Directors.*