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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 2017**

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 2017 together with the comparative figures for the corresponding period in 2016 as follows:

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

		Unaudited	
		Six months ended	
		31 December	
	<i>Notes</i>	2017	2016
		HK\$'000	HK\$'000
			(Restated)
Revenue	4	205,527	410,850
Cost of sales		(164,749)	(340,102)
Gross profit		40,778	70,748
Selling and distribution costs		(6,840)	(6,318)
Administrative expenses		(40,370)	(56,158)
Other operating income		4,233	6,667
Change in fair value of financial assets at fair value through profit or loss		604	403
Impairment loss on available-for-sale financial assets		–	(6,485)
Income arising from amortising the financial guarantee liabilities		3,608	2,878
Share-based compensation		–	(2,140)
Gain on disposal of a subsidiary		–	22,291
Finance costs	5	(4,622)	(7,888)
Share of results of joint ventures		74,377	(11,955)
Profit before income tax	6	71,768	12,043
Income tax expense	7	(120)	(2,325)
Profit for the period		71,648	9,718

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

	<i>Notes</i>	Unaudited Six months ended 31 December 2017 HK\$'000	2016 HK\$'000 (Restated)
Other comprehensive income for the period, net of tax			
Items that may be subsequently reclassified to profit or loss:			
Change in fair value of available-for-sale financial assets, net		253	(147)
Release upon disposal of available-for-sale financial assets		655	–
Exchange differences on translation of foreign operations, associates and joint ventures		<u>59,064</u>	<u>(51,405)</u>
Other comprehensive income for the period, net of tax		<u>59,972</u>	<u>(51,552)</u>
Total comprehensive income for the period		<u>131,620</u>	<u>(41,834)</u>
Profit for the period attributable to:			
Owners of the Company		71,650	9,571
Non-controlling interests		<u>(2)</u>	<u>147</u>
		<u>71,648</u>	<u>9,718</u>
Total comprehensive income for the period attributable to:			
Owners of the Company		131,622	(41,981)
Non-controlling interests		<u>(2)</u>	<u>147</u>
		<u>131,620</u>	<u>(41,834)</u>
		<i>HK cent</i>	<i>HK cent</i>
Earnings per share for profit attributable to the owners of the Company during the period	<i>9</i>		
Basic		<u>1.05</u>	<u>0.14</u>
Diluted		<u>1.05</u>	<u>0.14</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 31 December 2017 <i>HK\$'000</i>	Audited At 30 June 2017 <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		65,312	64,999
Land use rights		34,968	32,908
Investment properties		1,229,638	37,800
Mining right		674,314	646,739
Interests in associates		–	–
Interests in joint ventures		980,389	854,828
Available-for-sale financial assets		14,631	15,285
Deferred tax assets		5,762	5,762
		<u>3,005,014</u>	<u>1,658,321</u>
Current assets			
Inventories		170,301	169,937
Trade receivables	11	103,071	96,085
Prepayments, deposits and other receivables		9,745	10,088
Financial assets at fair value through profit or loss		6,374	5,770
Due from joint ventures		26	16
Cash and cash equivalents		95,867	374,648
		<u>385,384</u>	<u>656,544</u>
Current liabilities			
Trade payables	12	(49,895)	(58,703)
Other payables and accruals		(43,988)	(40,067)
Bank loans		(661,000)	(119,000)
Obligation under finance leases		(314)	(377)
Due to related companies		(600)	(576)
Derivative financial instruments		(44)	(143)
Financial guarantee liabilities		(7,216)	(7,216)
Loan from a controlling shareholder		–	(4,606)
Provision for tax		(2,680)	(2,309)
		<u>(765,737)</u>	<u>(232,997)</u>
Net current (liabilities)/assets		<u>(380,353)</u>	<u>423,547</u>
Total assets less current liabilities		2,624,661	2,081,868

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Unaudited	Audited
	At	At
	31 December	30 June
	2017	2017
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities		
Obligation under finance leases	(180)	(314)
Due to related companies	(85,997)	(82,036)
Financial guarantee liabilities	(6,314)	(9,921)
Due to ultimate holding company	(350,000)	–
Loan from a controlling shareholder	(54,803)	–
Deferred tax liabilities	(151,282)	(145,132)
	<u>(648,576)</u>	<u>(237,403)</u>
Net assets	<u>1,976,085</u>	<u>1,844,465</u>
EQUITY		
Share capital	560,673	560,673
Reserves	1,421,812	1,290,190
	<u>1,982,485</u>	<u>1,850,863</u>
Equity attributable to the owners of the Company	1,982,485	1,850,863
Non-controlling interests	<u>(6,400)</u>	<u>(6,398)</u>
	<u>1,976,085</u>	<u>1,844,465</u>
Total equity	<u>1,976,085</u>	<u>1,844,465</u>

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 “Stock Exchange”).

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 2017.

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 2017. 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 HKFRSs.

The financial information relating to the year ended 30 June 2017 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 2017 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 2017, issued by the HKICPA.

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

The application of the above amendments to HKFRSs in the current interim period, 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.

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
HKFRS 16	Leases ²
Amendments to HKAS 40	Transfer of Investment Property ¹
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts ¹
Amendments to HKFRS 9	Prepayment features with negative compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKFRS 15	Revenue from Contracts with Customers (clarifications to HKFRS 15) ¹
Amendments to HKFRSs	Annual improvements to 2014-2016 cycle ¹
HK(IFRIC) – Interpretation 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC) – Interpretation 23	Uncertainty Over Income Tax Treatments ²

¹ Effective for annual periods beginning on or after 1 January 2018

² Effective for annual periods beginning on or after 1 January 2019

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

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 four (2016: four (restated)) business lines as operating segments under continuing operations.

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

The Group has identified the following reportable segments:

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

During the period, the Group completed the acquisition of the entire equity interest of Ontrack Ventures Limited ("Ontrack") and its subsidiary, which principal asset is a piece of land located at No.232 Wan Chai Road, Hong Kong. Accordingly, the property investment was restated as continued operation in the segment information reported as below, details of which are set out in note 13. The acquisition was completed on 25 October 2017.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

3. SEGMENT INFORMATION (CONTINUED)

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		Property Investment		Investment		Mining operation		Consolidated		
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
				(Restated)						(Restated)	
Segment Revenue:											
Sales to/revenue from external parties	<u>205,373</u>	<u>275,383</u>	<u>0</u>	<u>133,500</u>	<u>154</u>	<u>206</u>	<u>0</u>	<u>1,761</u>	<u>205,527</u>	<u>410,850</u>	
Segment results	<u>7,911</u>	<u>(8,691)</u>	<u>(2,845)</u>	<u>47,820</u>	<u>(489)</u>	<u>(6,140)</u>	<u>(5,014)</u>	<u>(6,296)</u>	<u>(437)</u>	<u>26,693</u>	
Share-based compensation									-	(2,140)	
Unallocated (expenses)/income									(1,879)	3,338	
Income arising from amortising the financial guarantee liabilities									3,608	2,878	
Finance costs									(3,901)	(6,771)	
Share of results of joint ventures									<u>74,377</u>	<u>(11,955)</u>	
Profit before income tax									<u>71,768</u>	<u>12,043</u>	

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, sale of property under development and dividend income from investments.

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

	Unaudited	
	Six months ended 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Sale of goods	205,373	275,383
Sale of gold ores	–	1,761
Sale of property under development	–	133,500
Dividend income from investments	154	206
	<u>205,527</u>	<u>410,850</u>

5. FINANCE COSTS

	Unaudited	
	Six months ended 31 December	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
		(Restated)
Interest charges on:		
Bank loans	3,742	6,101
Interest expenses on loan from an ultimate holding company	1,155	–
Interest expenses on loan from a controlling shareholder	346	797
Interest expenses on amount due to a related company	–	870
Finance charges on obligation under finance leases	14	23
Imputed interest expenses arising from amounts due to related companies	<u>2,645</u>	<u>2,418</u>
Total borrowing costs	<u>7,902</u>	10,209
Less: Borrowing cost capitalised in investment property and property under development	<u>(3,280)</u>	<u>(2,321)</u>
	<u>4,622</u>	<u>7,888</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT BEFORE INCOME TAX

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

	Unaudited	
	Six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
		(Restated)
Cost of inventories sold	164,749	340,102
Depreciation of property, plant and equipment	2,290	3,050
Amortisation of land use rights	701	655
Amortisation of mining right	–	141
Minimum lease payments under operating leases		
on land and buildings	1,500	2,622
Provision for inventories*	2,841	4,993
Fair value loss/(gain) on derivative financial instruments		
– forward currency contracts	29	(180)
Net foreign exchange (gain)/loss	(3,665)	7,507
Income arising from derecognition of		
financial guarantee liabilities	–	(5,087)
Provision for trade receivables	494	730
Loss on disposal of available-for-sale financial assets	198	–
Write-off of property, plant and equipment	40	165
(Gain)/Loss on disposal of property, plant and equipment	(2,259)	23

* *Amount included in cost of sales*

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX EXPENSE

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

	Unaudited	
	Six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
		(Restated)
Current tax		
Hong Kong	73	4,545
People's Republic of China	85	24
	<u>158</u>	<u>4,569</u>
Deferred taxation		
People's Republic of China	(38)	(2,244)
	<u>120</u>	<u>2,325</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 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. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2017 (2016: Nil).

9. EARNINGS PER SHARE

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

	Unaudited	
	Six months ended 31 December	
	2017	2016
	HK\$'000	HK\$'000
		(Restated)
Profit attributable to the owners of the Company	<u>71,650</u>	<u>9,571</u>
	2017	2016
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,831,182,580	6,831,182,580
Effect of dilutive potential ordinary shares in respect of share options	<u>–</u>	<u>1,056,759</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>6,831,182,580</u>	<u>6,832,239,339</u>

The calculation of basic earnings per share is based on the profit of HK\$71,650,000 attributable to the owners of the Company for the six months ended 31 December 2017 (2016: profit of HK\$9,571,000) and on the weighted average of 6,831,182,580 (2016: 6,831,182,580) ordinary shares in issue during the period.

For the six months ended 31 December 2017, the computation of diluted earnings per share does not assume the exercise of share options as they were anti-dilutive.

For the six months ended 31 December 2016, diluted earnings per share 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

10. INVESTMENT PROPERTIES

	Unaudited At 31 December 2017 <i>HK\$'000</i>	Audited At 30 June 2017 <i>HK\$'000</i> (Restated)
Opening carrying amount	37,800	472,930
Additions	8,785	4,106
Borrowing cost capitalised	3,280	794
Net gain from fair value adjustments	–	700
Disposal of a subsidiary	–	(477,830)
Transfer from property, plant and equipment	–	37,100
Acquisition of subsidiaries	<u>1,179,773</u>	<u>–</u>
Closing carrying amount	<u><u>1,229,638</u></u>	<u><u>37,800</u></u>

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:

	Current <i>HK\$'000</i>	31-60 days <i>HK\$'000</i>	61-90 days <i>HK\$'000</i>	Over 90 days <i>HK\$'000</i>	Total <i>HK\$'000</i>
Unaudited balance at 31 December 2017	<u><u>13,667</u></u>	<u><u>41,835</u></u>	<u><u>23,211</u></u>	<u><u>24,358</u></u>	<u><u>103,071</u></u>
Audited balance at 30 June 2017	<u><u>32,546</u></u>	<u><u>16,894</u></u>	<u><u>11,023</u></u>	<u><u>35,622</u></u>	<u><u>96,085</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

12. TRADE PAYABLES

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

	Current	31-60 days	61-90 days	Over 90 days	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Unaudited balance					
at 31 December 2017	<u>8,983</u>	<u>8,815</u>	<u>10,605</u>	<u>21,492</u>	<u>49,895</u>
Audited balance					
at 30 June 2017	<u>8,488</u>	<u>13,583</u>	<u>7,959</u>	<u>28,673</u>	<u>58,703</u>

13. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 25 August 2017, the Group entered into a sale and purchase agreement (“S&P Agreement”) with Hillcharm Limited (“Seller”) to acquire the entire issued share capital of Ontrack Ventures Limited (“Ontrack”) and all the inter-company loan owing by Ontrack to the Seller at an aggregate consideration of HK\$1,180,000,000, subject to the adjustment. Ontrack is the holding company of Pacific Gate Investment Limited which principal asset is a piece of land located at No. 232 Wan Chai Road, Hong Kong with a site area of approximately 5,798 sq.ft. The acquisition was completed on 25 October 2017 upon the approval by the shareholders of the Company in the extraordinary general meeting held on 20 October 2017. Further details of which are set out in the Company’s circular dated 25 September 2017.

The adjusted consideration of approximately HK\$1,179,883,000 and was satisfied by cash on completion. This transaction has been accounted for as an acquisition of assets as the acquisition does not meet the definition of a business combination. The assets acquired and liabilities assumed do not constitute a business. The transaction was accounted for as an acquisition of investment property in the ordinary course of the Group’s property investment business.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

13. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES (CONTINUED)

The identifiable assets and liabilities was recognised at the date of acquisition as follows:

	Unaudited At 31 December 2017 HK\$'000
NET ASSETS ACQUIRED	
Investment Property	1,179,773
Prepayments and Other Receivables	230
Other Payables	(120)
	<u>1,179,883</u>
Net Assets	<u><u>1,179,883</u></u>
Net cash outflow in connection with the acquisition of subsidiary:	
Cash and cash equivalent balance acquired	–
Consideration Paid	<u>1,179,883</u>
	<u><u>1,179,883</u></u>

14. EVENTS AFTER THE REPORTING DATE

On 22 January 2018, the Group entered into a sale and purchase agreement (the “S&P Agreement”) with A Glory Communications Limited (“A Glory”) to sell 50% of the issued share capital of Wealth Plus Developments Limited (“Wealth Plus”) and the shareholders loan owing by Wealth Plus to the Group. Wealth Plus is a joint venture company held as to 50% by each of the Group and A Glory. Wealth Plus’s sole wholly-owned subsidiary, Shanghai Haijin Real Estate Co., Ltd., owns “Bauhinia Square” in Yangpu District, Shanghai, the PRC.

Pursuant to the S&P Agreement, the amount of consideration is expected to be approximately HK\$1,308,000,000, subject to adjustments on the amount of Haijin bank loans (inclusive of the unpaid interests then accrued) as at the close of business of the completion date i.e., 20 April 2018. The consideration should be settled in cash and a deposit in the sum of HK\$130,800,000 has been paid by A Glory to the Group on the date of S&P Agreement. The disposal constituted a very substantial disposal transaction of the Company and further details were disclosed in the announcement of the Company dated 24 January 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group's consolidated revenue for the six months ended 31 December 2017 recorded a decrease of approximately 50% from HK\$410,850,000 (restated) for last interim period to HK\$205,527,000. The decrease in revenue was mainly attributable to (i) suspension of the diamond polishing operations since May 2017; and (ii) absence of one off revenue arising from disposal of 3 floors of an investment property amounting to approximately HK\$133,500,000. During the period under review, profit from owners of the Company was HK\$71,650,000 as compared to last interim profit of HK\$9,571,000. The substantial increase in profit was primarily attributable to the share of profit of joint ventures amounted to approximately HK\$74,337,000 which mainly resulting from change in fair value of investment property held by the Group's joint venture. For the six months ended 31 December 2017, basic earnings per share was HK1.05 cent (2016: HK0.14 cent).

BUSINESS REVIEW

In the period under review, the Group's trading of fine jewellery and diamond business recorded a decrease in revenue of approximately HK\$70,010,000 or 25.4% from HK\$275,383,000 for the six months ended 31 December 2016 to HK\$205,373,000 for the corresponding period in 2017. The decrease in revenue was mainly resulted from the suspension of diamond polishing business. Whilst the US market shows signs of recovery in consumers' confidence, a full recovery for luxurious products will likely take some more time. As for United Kingdom and Europe, the market remains soft. Despite the challenging environment during the period under review, the Group managed to post positive results of this segment underpinned by the steady revenue from jewellery business of the Group. The Group will continue to implement business strategies on product diversification and enhance marketing efforts in order to gain market share in the jewellery industry.

In property investment, the Group completed the acquisition of the entire issued capital and sale loan of Ontrack Ventures Limited and its subsidiary, which holds a piece of land located at No. 232 Wan Chai Road, Hong Kong at a total consideration of approximately HK\$1,180,000,000. The land is a clear site with a site area of approximately 5,798 sq. ft. The Group shall redevelop the land into a premium grade office, and retail composite building of approximately 25-storey tall with a gross floor area of approximately 86,970 sq. ft and to hold it for long term leasing investment purpose. The foundation work shall commence in mid 2018 and the building is expected to be completed in second quarter of 2020.

Having considered the revitalizing property market condition in the PRC, the Board consider that it is a good opportunity for the Group to realize its investment. The Group has entered into a sale and purchase agreement on 22 January 2018 for the disposal of the 50% issued share capital of Wealth Plus Developments Limited (“Wealth Plus”). Wealth Plus is 50% owned joint venture of the Group which through its subsidiary holds “Bauhinia Square”, an eleven-floored shopping mall located in Yangpu District of Shanghai. The consideration of the disposal shall be approximately HK\$1,308,000,000 (subject to adjustment) and a deposit in the sum of HK\$130,800,000 has been received by the Group. The transaction is expected to complete on 20 April 2018. The proceeds from the disposal will enable the Group to reduce its borrowing and to improve the working capital position of the Group for future opportunities that may arise.

For our mining business, the operation at Hongzhuang Gold Mine was minimized. All of the previously reported gold resources in the Yuanling site had been exhausted. Activities such as re-visiting the old shaft and feasibility study of developing new shafts are being conducted. Meanwhile, the Company is reviewing the result of second phase exploration at the north eastern part of Yuanling.

PROSPECTS

For 2018, we foresee that the consumer demand will remain soft until the 2nd and 3rd quarter. A further consolidation of the diamond and jewellery industry is expected and certain market segments will encounter great difficulties and challenges. The Group will continue to strengthen its market position by providing the best products and services to our customers. With the rapidly changing market environment, we are also implementing new business strategies and projects that will enable us to explore new opportunities and markets in the near future. During the period, the Board had been taking initiatives to co-operate with strategic partners to pursue new business opportunities with a view to diversify the business of the Group. As a result, the Group had incorporated a joint venture with a partner to acquire 51% of equity interest in Joint Able Limited and its subsidiaries, which is mainly engaged in the operation of retail and trading of a branded fashion jewellery. Our management will continue to actively seek for potential business opportunities that will generate better returns and value to the Company and its shareholders.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2017 (2016: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

As at 31 December 2017, the Group has a gearing ratio of 0.35 (30 June 2017: zero), 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 cash and cash equivalents of HK\$95,867,000 (30 June 2017: HK\$374,648,000) which were mainly denominated in Hong Kong Dollar, US Dollar, Renminbi and British Pound. Bank loans were HK\$661,000,000 (30 June 2017: HK\$119,000,000), which were mainly denominated in Hong Kong Dollar. Other borrowings in respect of amounts due to related companies; loan from a controlling shareholder and ultimate holding company were approximately of HK\$491,400,000 (30 June 2017: HK\$87,218,000). The bank loans are secured by first legal charges over the Group's investment properties, certain leasehold land and buildings, land use rights and guaranteed by corporate guarantees executed by the Group.

The decrease in the Group's cash and cash equivalent and the increase in borrowing as at 31 December 2017 mainly due to the acquisition of a piece of land located at No. 232 Wan Chai Road, Hong Kong.

PLEDGE OF ASSETS

As at 31 December 2017, the Group's investment properties, certain leasehold land and buildings and land use rights with an aggregate net carrying value of HK\$1,243,000,000 (30 June 2017: HK\$51,236,000) were pledged to certain banks to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

The Company has provided guarantees amounting to HK\$661,000,000 (30 June 2017: HK\$119,000,000) with respect to bank loans to its subsidiaries. Guarantees to the extent of RMB356,564,000 (equivalent to approximately HK\$428,126,000) (30 June 2017: RMB358,425,000 (equivalent to approximately HK\$412,763,000)) 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 has been 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 and Renminbi. Interest is determined with reference to the Hong Kong Interbank Offered Rate or Prime Rate for Hong Kong Dollar borrowings, and the benchmark lending rate of the People's Bank of China for Renminbi 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 2017. 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 2017, the Group employed a total of approximately 693 employees (30 June 2017: 828) 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. 120,000,000 share options were granted pursuant to the scheme since its adoption and up to 31 December 2017.

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 2017.

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 2017 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, Mr. Chan Wai Lap, Victor (“Mr. Victor Chan”) was the Chairman of the Board. Mr. Victor 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. Mr. Victor 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”), mother of Mr. Victor Chan, is the Managing Director of the Company. She is responsible for the day-to-day management and marketing activities of the Group.

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 2017. 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 2017.

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 2017. 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 2018

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.