



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

INTERIM REPORT 2018/2019
二零一八至二零一九年中期報告

(Stock Code: 00513)
(股份代號: 00513)

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

The board of directors (the “Board”) of Continental Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2018 together with the comparative figures for the corresponding period in 2017 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Unaudited	
		Six months ended	
		31 December	
		2018	2017
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Revenue	4	244,755	205,527
Cost of sales		(186,163)	(164,749)
		<hr/>	<hr/>
Gross profit		58,592	40,778
Selling and distribution costs		(7,046)	(6,840)
Administrative expenses		(50,006)	(40,370)
Other operating income		5,670	4,233
Change in fair value of financial assets at fair value through profit or loss		(878)	604
Income arising from amortising the financial guarantee liabilities		–	3,608
Finance costs	5	(2,772)	(4,622)
Share of results of joint ventures		(1,102)	74,377
		<hr/>	<hr/>
Profit before income tax	6	2,458	71,768
Income tax credit/(expense)	7	38	(120)
		<hr/>	<hr/>
Profit for the period		2,496	71,648
		<hr/>	<hr/>

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

	Unaudited	
	Six months ended	
	31 December	
	2018	2017
<i>Notes</i>	HK\$'000	HK\$'000
Other comprehensive income for the period, net of tax		
Items that will not be reclassified to profit or loss:		
Change in fair value of equity instruments at fair value through other comprehensive income, net	337	–
Items that may be subsequently reclassified to profit or loss:		
Change in fair value of available-for-sale financial assets, net	–	253
Release upon disposal of available-for-sale financial assets	–	655
Exchange differences on translation of foreign operations, associates and joint ventures	(17,887)	59,064
	<u>(17,550)</u>	<u>59,972</u>
Other comprehensive income for the period, net of tax		
	<u>(17,550)</u>	<u>59,972</u>
Total comprehensive income for the period	<u>(15,054)</u>	<u>131,620</u>
Profit for the period attributable to:		
Owners of the Company	2,498	71,650
Non-controlling interests	(2)	(2)
	<u>2,496</u>	<u>71,648</u>

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

		Unaudited	
		Six months ended	
		31 December	
		2018	2017
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Total comprehensive income for the period attributable to:			
Owners of the Company		(15,052)	131,622
Non-controlling interests		(2)	(2)
		(15,054)	131,620
		<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		0.04	1.05
Diluted		0.04	1.05

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 31 December 2018 <i>HK\$'000</i>	Audited At 30 June 2018 <i>HK\$'000</i>
<i>Notes</i>			
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		55,051	56,446
Land use rights		30,702	32,398
Investment properties	10	1,457,883	1,308,400
Mining right	11	601,965	623,749
Interests in joint venture	12	13,641	14,743
Financial assets at fair value through other comprehensive income		14,721	–
Available-for-sale financial assets		–	14,385
Deferred tax assets		5,762	5,762
		2,179,725	2,055,883
		2,179,725	2,055,883
Current assets			
Inventories		175,089	161,758
Trade receivables	13	139,656	111,737
Prepayments, deposits and other receivables		27,098	10,434
Financial assets at fair value through profit or loss		5,188	6,066
Due from joint venture	12	1,355	183
Cash and cash equivalents		972,838	1,128,664
		1,321,224	1,418,842
		1,321,224	1,418,842
Current liabilities			
Trade payables	14	(94,951)	(54,922)
Other payables and accruals		(42,331)	(34,650)
Contract liabilities		(588)	–
Bank loans	15	(611,831)	(611,000)
Obligation under finance leases		(88)	(127)
Dividend payable	8	(34,156)	–
Provision for tax		(2,232)	(2,349)
		(786,177)	(703,048)
		(786,177)	(703,048)
Net current assets		535,047	715,794
		535,047	715,794
Total assets less current liabilities		2,714,772	2,771,677
		2,714,772	2,771,677

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

		Unaudited	Audited
		At 31 December	At 30 June
		2018	2018
<i>Notes</i>		<i>HK\$'000</i>	<i>HK\$'000</i>
Non-current liabilities			
Obligation under finance leases		–	(35)
Due to related companies	<i>16</i>	(31,183)	(33,793)
Loan from ultimate holding company	<i>17</i>	(350,000)	(350,000)
Loan from a controlling shareholder	<i>18</i>	(4,576)	(4,742)
Deferred tax liabilities		(133,940)	(138,824)
		<hr/> (519,699) <hr/>	<hr/> (527,394) <hr/>
Net assets		<hr/> 2,195,073 <hr/>	<hr/> 2,244,283 <hr/>
EQUITY			
Share capital	<i>19</i>	560,673	560,673
Reserves		1,640,804	1,690,012
		<hr/> 2,201,477 <hr/>	<hr/> 2,250,685 <hr/>
Equity attributable to the owners of the Company		2,201,477	2,250,685
Non-controlling interests		(6,404)	(6,402)
		<hr/> 2,195,073 <hr/>	<hr/> 2,244,283 <hr/>
Total equity		<hr/> 2,195,073 <hr/>	<hr/> 2,244,283 <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
Net cash used in operating activities	(15,664)	(22,270)
Net cash used in investing activities	(141,159)	(1,186,385)
Net cash generated from financing activities	755	927,289
Decrease in cash and cash equivalents	(156,068)	(281,366)
Cash and cash equivalents at 1 July	1,128,664	374,648
Effect of foreign exchange rate changes, net	242	2,585
Cash and cash equivalents at 31 December	<u>972,838</u>	<u>95,867</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	<u>972,838</u>	<u>95,867</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited
Six months ended 31 December
Equity attributable to the owners of the Company

	Share capital <i>HKS'000</i>	Share option reserve <i>HKS'000</i>	Non-distributable reserve <i>HKS'000</i>	Other reserve <i>HKS'000</i>	Capital contribution reserve <i>HKS'000</i>	Exchange fluctuation reserve <i>HKS'000</i>	Assets revaluation reserve <i>HKS'000</i>	Investment revaluation reserve <i>HKS'000</i>	FVTOCI reserve <i>HKS'000</i>	Retained profits <i>HKS'000</i>	Total <i>HKS'000</i>	Non-controlling interests <i>HKS'000</i>	Total equity <i>HKS'000</i>
Balance at 1 July 2018	560,673	6,409	273,606	(5,610)	28,567	4,916	36,385	9,492	-	1,336,247	2,250,685	(6,402)	2,244,283
Initial application of HKFRS 9 (note 2(c))	-	-	-	-	-	-	-	(9,492)	9,492	-	-	-	-
Restated balance as at 1 July 2018	560,673	6,409	273,606	(5,610)	28,567	4,916	36,385	-	9,492	1,336,247	2,250,685	(6,402)	2,244,283
2018 final dividend (note 8)	-	-	-	-	-	-	-	-	-	(34,156)	(34,156)	-	(34,156)
Transactions with owners	560,673	6,409	273,606	(5,610)	28,567	4,916	36,385	-	9,492	1,302,091	2,216,529	(6,402)	2,210,127
Profit for the period	-	-	-	-	-	-	-	-	-	2,498	2,498	(2)	2,496
Other comprehensive income:													
Change in fair value of financial assets through other comprehensive income	-	-	-	-	-	-	-	-	337	-	337	-	337
Exchange differences on translation of foreign operations, associates and joint ventures	-	-	-	-	-	(17,887)	-	-	-	-	(17,887)	-	(17,887)
Total comprehensive income	-	-	-	-	-	(17,887)	-	-	337	2,498	(15,052)	(2)	(15,054)
Balance at 31 December 2018	560,673	6,409	273,606	(5,610)	28,567	(12,971)	36,385	-	9,829	1,304,589	2,201,477	(6,404)	2,195,073
Balance at 1 July 2017	560,673	6,409	273,606	(5,610)	28,567	(38,503)	36,385	7,848	-	981,488	1,850,863	(6,298)	1,844,465
Transactions with owners	560,673	6,409	273,606	(5,610)	28,567	(38,503)	36,385	7,848	-	981,488	1,850,863	(6,298)	1,844,465
Profit for the period	-	-	-	-	-	-	-	-	-	71,650	71,650	(2)	71,648
Other comprehensive income:													
Change in fair value of available-for-sale financial assets, net	-	-	-	-	-	-	-	253	-	-	253	-	253
Release upon disposal of available-for-sale financial assets	-	-	-	-	-	-	-	655	-	-	655	-	655
Exchange differences on translation of foreign operations, associates and joint ventures	-	-	-	-	-	59,064	-	-	-	-	59,064	-	59,064
Total comprehensive income	-	-	-	-	-	59,064	-	908	-	71,650	131,622	(2)	131,620
Balance at 31 December 2017	560,673	6,409	273,606	(5,610)	28,567	20,561	36,385	8,756	-	1,053,138	1,982,485	(6,400)	1,976,085

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The 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, 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 2018, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 July 2018. This is the first set of the Group’s condensed consolidated interim financial information in which HKFRS 9 and HKFRS 15 have been adopted. Details of any changes in accounting policies are set out in note 2.

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 2018. 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 2018 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 2018 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group

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 2018, issued by the HKICPA.

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKAS 40	Investment Property – Transfer of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRSs	Annual Improvements to 2014-2016 cycle
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC)-Interpretation 22	Foreign Currency Transactions and Advance Consideration

Other than explained in note 2 (c) and (d) below regarding the impact of HKFRS 9 and HKFRS 15, the adoption of the new and revised 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.

(b) New standards and amendments to standards issued but are not yet effective

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 16	Leases ¹
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ¹
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures ¹
HK(IFRIC)-Interpretation 23	Uncertainty Over Income Tax Treatments ¹
Annual Improvements to HKFRSs 2015-2017 cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing Costs ¹
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ²
HKFRS 17	Insurance Contracts ³

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

² The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

³ Effective for annual periods beginning on or after 1 January 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 9

(i) *Classification and measurement of financial assets and financial liabilities*

HKFRS 9 replaces HKAS 39, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The Group has initially adopted HKFRS 9 from 1 July 2018 which has resulted in changes in accounting policies of the Group and the amounts recognised in the condensed consolidated interim financial statements.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (“FVTPL”), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost (“amortised costs”); (ii) financial assets at fair value through other comprehensive income (“FVTOCI”); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the “solely payments of principal and interest” criterion, also known as “SPPI criterion”). Under HKFRS 9, embedded derivatives are no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVTOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to be achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 9 (Continued)

(i) Classification and measurement of financial assets and financial liabilities (Continued)

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVTOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVTOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies would be applied to the Group's financial assets as follows:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVTOCI (equity instruments)	Equity investments at fair value through other comprehensive income are measure at fair value. Dividend income is recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

- (a) As of 1 July 2018, certain investment in listed equity investments were reclassified from available-for-sale financial assets to FVTOCI. The Group intends to hold these equity investments for long term strategic purposes. Under HKFRS 9, the Group has designated these equity investments at the date of initial application as measured at FVTOCI. As a result, financial assets with a fair value of HK\$10,154,000 were reclassified from available-for-sale financial assets at fair value to FVTOCI and fair value gains of HK\$9,492,000 were reclassified from investment revaluation reserve to the FVTOCI reserve on 1 July 2018.
- (b) As of 1 July 2018, certain unquoted equity investments were reclassified from available-for-sale financial assets at cost to FVTOCI. These unquoted equity instruments have no quoted price in an active market. The Group intends to hold these unquoted equity investments for long term strategic purposes. In addition, the Group has designated such unquoted equity instrument at the date of initial application as measured at FVTOCI. As a result, the carrying amount of HK\$4,231,000 was reclassified from available-for-sale financial assets at fair value to FVTOCI.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 9 (Continued)

(i) Classification and measurement of financial assets and financial liabilities (Continued)

The table below illustrates the effect on classification and measurement under HKFRS 9 at the date of initial application on 1 July 2018.

	Available for-sale financial assets <i>HK\$'000</i>	Financial assets at FVTOCI <i>HK\$'000</i>	Investment revaluation reserve <i>HK\$'000</i>	FVTOCI reserve <i>HK\$'000</i>
Balance as at 30 June 2018	14,385	–	9,492	–
Reclassify investments from available-for-sale financial assets to fair value through other comprehensive income (“FVTOCI”)	(14,385)	14,385	(9,492)	9,492
Restated balance as at 1 July 2018 (unaudited)	<u>–</u>	<u>14,385</u>	<u>–</u>	<u>9,492</u>

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group’s impairment model by replacing the HKAS 39 “incurred loss model” to the “expected loss model (“ECL model”)”. HKFRS 9 requires the Group to recognise expected credit loss (“ECLs”) for trade receivables and financial assets at amortised costs earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date; and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement and impact of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets’ original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group’s historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 9 (Continued)

(ii) Impairment of financial assets (Continued)

Measurement and impact of ECLs (Continued)

Furthermore, the Group has applied the general approach to assess the expected credit losses in according to the change in credit quality since initial recognition for other financial assets at amortised cost.

The Group has not restated comparative information for financial instruments in the scope of HKFRS 9. Therefore, the comparative information is reported under HKAS 39 and is not comparable to the information presented as at and for the period ended 31 December 2018.

The adoption of the ECL model under HKFRS 9 has no material impact on the Group as at 1 July 2018 and for the period ended 31 December 2018.

(d) Adoption of HKFRS 15

The Group has adopted HKFRS 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policies. The Group adopted HKFRS 15 using the modified retrospective approach which means that the cumulative impact of the adoption, if any, will be recognised in retained earnings as of 1 July 2018 and that comparatives will not be restated. The Group assessed the impacts of adopting HKFRS 15 on its condensed consolidated interim financial statements and concluded that HKFRS 15 has no significant impact on the Group's revenue recognition. Revenue for sales of fine jewellery and diamonds are recognised at point of time as when there is evidence that the control of the goods has been transferred to the customer, the customer has adequate control over the product and the Group has no unfulfilled obligations that affect customer accepting the goods.

Upon the adoption of HKFRS 15, if there is any satisfied performance obligation but where the Group does not have an unconditional right to consideration, the Group should recognised a contract asset. No contract asset is recognised upon transition and at the end of the reporting period.

Following adjustments were made to the amounts recognised in the condensed consolidated statement of financial position at the date of initial application (1 July 2018):

	Carrying amount as at 30 June 2018 under HKAS 18 (as previously stated) HK\$'000	Reclassification HK\$'000	Carrying amount as at 1 July 2018 under HKFRS 15 HK\$'000
Other payables and accruals	34,650	(626)	34,024
Contract liabilities*	–	626	626

* *Contract liabilities recognised in relation to the fine jewellery and diamonds business were previously treated as advance from customers presented under other payables and accruals.*

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 (2017: four) business lines as operating segments under continuing operations.

Certain comparative figures on the measurement of the segment results have been represented 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;
- Property investment;
- Mining operation; and
- Investment

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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
HK\$'000		HK\$'000		HK\$'000		HK\$'000		HK\$'000		
		(represented)		(represented)						
Segment Revenue:										
Sales to/revenue from external parties	233,266	205,373	1,175	-	10,314	154	-	-	244,755	205,527
Segment results	7,877	7,911	(7,132)	71,338	9,567	(295)	(3,723)	(5,014)	6,589	73,940
Unallocated expenses									(2,080)	(1,879)
Income arising from amortising the financial guarantee liabilities									-	3,608
Finance costs									(2,051)	(3,901)
Profit before income tax									2,458	71,768

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, 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	
	2018	2017
	HK\$'000	HK\$'000
Sale of goods	233,266	205,373
Rental Income	1,175	–
Interest Income	10,152	–
Dividend income from investments	162	154
	<u>244,755</u>	<u>205,527</u>

5. FINANCE COSTS

	Unaudited	
	Six months ended	
	31 December	
	2018	2017
	HK\$'000	HK\$'000
Interest charges on:		
Bank loans	9,328	3,742
Interest expenses on loan from ultimate holding company	2,647	1,155
Interest expenses on loan from a controlling shareholder	–	346
Finance charges on obligation under finance leases	2	14
Imputed interest expenses arising from amounts due to related companies	721	2,645
	<u>12,698</u>	<u>7,902</u>
Total borrowing costs		
	<u>12,698</u>	<u>7,902</u>
Less: Interests capitalised in investment properties	(9,926)	(3,280)
	<u>2,772</u>	<u>4,622</u>

6. PROFIT BEFORE INCOME TAX

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

	<i>Notes</i>	Unaudited	
		Six months ended	
		31 December	
		2018	2017
		HK\$'000	HK\$'000
Cost of inventories sold		186,163	164,749
Depreciation of property, plant and equipment		2,245	2,290
Amortisation of land use rights		670	701
Minimum lease payments under operating leases on land and buildings		1,650	1,500
Provision for inventories*		2,995	2,841
Fair value loss on derivative financial instruments			
– forward currency contracts		–	29
Net foreign exchange loss/(gain)		2,568	(3,665)
Provision for trade receivables		648	494
Loss on disposal of available-for-sale financial assets		–	198
Write-off of property, plant and equipment		29	40
Gain on disposal of subsidiaries	25	1,684	–
Gain on disposal of property, plant and equipment		–	(2,259)
		—————	—————

* *Amount included in cost of sales*

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	
	2018 HK\$'000	2017 HK\$'000
Current tax		
Hong Kong	–	73
People's Republic of China	–	85
Over-provision in prior years	(2)	–
	<u>(2)</u>	<u>158</u>
Deferred taxation		
People's Republic of China	(36)	(38)
	<u>(38)</u>	<u>120</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2017:16.5%) 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.

8. DIVIDENDS

- (i) The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2018 (2017: Nil)
- (ii) Dividends to equity shareholders attributable to previous financial year, approved and payable during the interim period:

	Unaudited Six months ended 31 December	
	2018 HK\$'000	2017 HK\$'000
Final dividend in respect of the year ended 30 June 2018, approved and payable, of HK0.5 cent per share (six months ended 31 December 2017: for the financial year ended 30 June 2017: Nil)	<u>34,156</u>	<u>–</u>

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	
	2018 HK\$'000	2017 HK\$'000
Profit attributable to the owners of the Company	<u>2,498</u>	<u>71,650</u>
	2018	2017
	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>—</u>
Weighted average number of ordinary shares for the purpose of diluted earnings per share	<u>6,831,182,580</u>	<u>6,831,182,580</u>

The calculation of basic earnings per share is based on the profit of HK\$2,498,000 attributable to the owners of the Company for the six months ended 31 December 2018 (2017: HK\$71,650,000) and on the weighted average of 6,831,182,580 (2017: 6,831,182,580) ordinary shares in issue during the period.

For the six months ended 31 December 2018 and 2017, the computation of diluted earnings per share does not assume the exercise of share options as they were anti-dilutive.

10. INVESTMENT PROPERTIES

	Unaudited At 31 December 2018 HK\$'000	Audited At 30 June 2018 HK\$'000
Opening carrying amount	1,308,400	37,800
Additions	10,557	12,232
Interests capitalised	9,926	11,578
Net gain from fair value adjustments	–	67,017
Acquisition of subsidiaries (<i>Note 24</i>)	129,000	1,179,773
	<hr/>	<hr/>
Closing carrying amount	1,457,883	1,308,400
	<hr/> <hr/>	<hr/> <hr/>

11. MINING RIGHT

	Unaudited At 31 December 2018 HK\$'000	Audited At 30 June 2018 HK\$'000
Opening net carrying amount	623,749	646,739
Amortisation charge for the period	–	–
Provision of impairment for the period	–	(41,972)
Exchange realignment	(21,784)	18,982
	<hr/>	<hr/>
Closing net carrying amount	601,965	623,749
	<hr/> <hr/>	<hr/> <hr/>
Gross carrying amount	958,031	992,701
Accumulated amortisation	(4,337)	(4,494)
Accumulated provision for impairment	(351,729)	(364,458)
	<hr/>	<hr/>
Net carrying amount	601,965	623,749
	<hr/> <hr/>	<hr/> <hr/>

Mining right is stated at cost less accumulated amortisation and provision for impairment and are amortised on the units-of-production method based on the total proven and probable mineral reserves of the ore mines. For the six months ended 31 December 2018, no amortisation was provided by the Group in relation to the mining right (30 June 2018: Nil).

12. INTERESTS IN JOINT VENTURE

	Unaudited At 31 December 2018 HK\$'000	Audited At 30 June 2018 HK\$'000
Share of net (liabilities)/assets	(859)	243
Loans to joint venture (<i>Note a</i>)	<u>14,500</u>	<u>14,500</u>
	<u>13,641</u>	<u>14,743</u>
Due from joint venture (<i>Note b</i>)	<u>1,355</u>	<u>183</u>

Note:

- (a) The loans to a joint venture are unsecured, interest-free and have no fixed repayment terms. In the opinion of the directors, these loans are not repayable within twelve months from the reporting date.
- (b) The amounts due from joint venture are unsecured, interest-free and repayable within twelve months from the reporting date.

13. 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 2018	<u>27,014</u>	<u>44,366</u>	<u>26,550</u>	<u>41,726</u>	<u>139,656</u>
Audited balance at 30 June 2018	<u>23,186</u>	<u>29,880</u>	<u>20,572</u>	<u>38,099</u>	<u>111,737</u>

14. TRADE PAYABLES

An ageing analysis of the trade payables at the reporting date 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 2018	<u>19,698</u>	<u>29,363</u>	<u>13,656</u>	<u>32,234</u>	<u>94,951</u>
Audited balance at 30 June 2018	<u>13,575</u>	<u>8,395</u>	<u>18,961</u>	<u>13,991</u>	<u>54,922</u>

15. BANK LOANS

At 31 December 2018, the Group's bank loans are as follows:

	Unaudited 31 December 2018 <i>HK\$'000</i>	Audited 30 June 2018 <i>HK\$'000</i>
Portion of loans from banks due for repayment within one year		
– Guaranteed	35,000	55,000
– Secured and guaranteed	<u>58,216</u>	<u>84,000</u>
	93,216	139,000
Portion of loans from banks due for repayment after one year which contain a repayable on demand clause		
– Secured and guaranteed	<u>518,615</u>	<u>472,000</u>
	<u>611,831</u>	<u>611,000</u>
At 31 December 2018, the bank loans were scheduled to repay as follows:		
Repayable within one year	93,216	139,000
Repayable in the second year	4,350	–
Repayable in the third to fifth year, inclusive	486,013	472,000
Repayable over five years	<u>28,252</u>	<u>–</u>
	<u>611,831</u>	<u>611,000</u>

15. BANK LOANS (CONTINUED)

At 31 December 2018, the Group's banking facilities were secured/guaranteed by the followings:

- (a) legal charges over the Group's investment properties, certain leasehold land and buildings and land use rights;
- (b) corporate guarantees executed by the Group; and
- (c) ordinary shares of indirect wholly-owned subsidiaries of the Company.

The bank loans of the Group denominated in Hong Kong Dollars of HK\$611,831,000 (30 June 2018: HK\$611,000,000) have floating interest rates ranging from 2.20% to 4.63% (30 June 2018: 2.70% to 3.97%) per annum.

16. DUE TO RELATED COMPANIES

	Unaudited 31 December 2018 HK\$'000	Audited 30 June 2018 HK\$'000
Non-current liabilities		
Due to related companies (<i>Note (a)</i>)	31,183	33,793

Notes:

- (a) Amount due to related companies are unsecured, interest-free and not repayable within the next twelve months from the reporting date, in which of the carrying amount HK\$28,495,000 was calculated using a market interest rate of 4.75% per annum.

17. LOAN FROM ULTIMATE HOLDING COMPANY

The amount due is unsecured, interest bearing at 1.5% per annum and due for repayment on 24 September 2020.

18. LOAN FROM A CONTROLLING SHAREHOLDER

As at 31 December 2018, loan of RMB4,000,000 (equivalent to HK\$4,576,000) (30 June 2018: HK\$4,742,000) is advanced from Dr. Chan Sing Chuk, Charles (“Dr. Chan”) and is unsecured, interest-free and due for repayment on 25 October 2020.

19. SHARE CAPITAL

	Number of ordinary shares	Total HK\$'000
Issued and fully paid:		
At 30 June 2018 and 31 December 2018	<u>6,831,182,580</u>	<u>560,673</u>

There were no movements in share capital during the six months ended 31 December 2018.

20. SHARE OPTIONS

Details of the outstanding share options under the Share Option Scheme (the “Scheme”) of the Company adopted on 13 July 2010 are as follows:

As at 31 December 2018

Date of grant	Exercisable period	Exercise price per share <i>HK\$</i>	Number of share options			At the end of the period
			At the beginning of the period	Granted during the period	Exercised during the period	
19 June 2014	19 June 2014 to 18 June 2024	0.138	20,000,000	–	–	20,000,000
25 July 2014	25 July 2014 to 24 July 2024	0.121	10,000,000	–	–	10,000,000
7 July 2015	7 July 2015 to 6 July 2025	0.245	40,000,000	–	–	40,000,000
3 November 2016	3 November 2016 to 2 November 2026	0.149	40,000,000	–	–	40,000,000
			110,000,000	–	–	110,000,000

As at 30 June 2018

Date of grant	Exercisable period	Exercise price per share <i>HK\$</i>	Number of share options			At the end of the year
			At the beginning of the year	Granted during the year	Exercised during the year	
19 June 2014	19 June 2014 to 18 June 2024	0.138	20,000,000	–	–	20,000,000
25 July 2014	25 July 2014 to 24 July 2024	0.121	10,000,000	–	–	10,000,000
7 July 2015	7 July 2015 to 6 July 2025	0.245	40,000,000	–	–	40,000,000
3 November 2016	3 November 2016 to 2 November 2026	0.149	40,000,000	–	–	40,000,000
			110,000,000	–	–	110,000,000

No share options were granted and exercised during the six months ended 31 December 2018 (2017: Nil).

Weighted average exercise price of outstanding share options is HK\$0.179 (30 June 2018: HK\$0.179) and the weighted average remaining contractual life of outstanding share options is 6.5 years (30 June 2018: 7 years).

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

The following table gives information about how the fair values of these financial assets are determined, as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1: quoted prices (unadjusted) in active market for identical assets;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the instruments and derivatives, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3: inputs for the instruments that are not based on observable market data (unobservable inputs).

	Level 1	Level 2	Level 3	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
As at 31 December 2018				
Financial assets at fair value through other comprehensive income:				
– Equity securities in unlisted entity	–	–	4,231	4,231
– Equity securities listed in Hong Kong	9,563	–	–	9,563
– Equity securities listed in overseas	927	–	–	927
Financial assets at fair value through profit or loss:				
– Equity securities listed in Hong Kong	5,188	–	–	5,188
	<u>15,678</u>	<u>–</u>	<u>4,231</u>	<u>19,909</u>

21. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS (CONTINUED)

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
As at 30 June 2018				
Available-for-sale financial assets				
– Equity securities listed in Hong Kong	8,868	–	–	8,868
– Equity securities listed in overseas	1,286	–	–	1,286
Listed securities held for trading:				
– Equity securities listed in Hong Kong	6,066	–	–	6,066
	<u>16,220</u>	<u>–</u>	<u>–</u>	<u>16,220</u>

As at 31 December 2018, listed equity securities not held for trading are classified as financial assets at fair value through other comprehensive income, other listed equity securities held for trading are classified as financial assets at fair value through profit or loss that are measured at fair value and classified under level 1. Unlisted equity securities are valued based on the net asset value per share and classified under level 3.

As at 30 June 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3.

22. CAPITAL COMMITMENTS

	Unaudited At 31 December 2018 <i>HK\$'000</i>	Audited At 30 June 2018 <i>HK\$'000</i>
Contracted but not provided for:		
Investment properties	<u>21,212</u>	<u>7,365</u>

23. OPERATING LEASE COMMITMENTS

As lessor

The Group leases certain properties (note 10) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. None of the leases include contingent rentals. At 31 December 2018, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited At 31 December 2018 <i>HK\$'000</i>	Audited At 30 June 2018 <i>HK\$'000</i>
Within one year	4,493	912
In the second to fifth years, inclusive	<u>1,824</u>	<u>684</u>
	<u>6,317</u>	<u>1,596</u>

As lessee

The Group leases certain shops, office properties and staff quarters under operating lease arrangements. Leases (including contingent rental) are negotiated at fixed rate or with reference to level of business and terms ranging from one to three years (30 June 2018: one to three years), with an option to renew the leases and renegotiate the terms at the expiry date or at dates as mutually agreed between the Group and respective landlords. As at 31 December 2018, the Group had future aggregate minimum lease payments under non-cancellable operating leases falling due as follows:

	Unaudited At 31 December 2018 <i>HK\$'000</i>	Audited At 30 June 2018 <i>HK\$'000</i>
Within one year	3,295	2,735
In the second to fifth years, inclusive	<u>1,763</u>	<u>1,775</u>
	<u>5,058</u>	<u>4,510</u>

24. ACQUISITION OF ASSETS THROUGH ACQUISITION OF SUBSIDIARIES

On 20 July 2018, the Group had entered into 11 preliminary sale and purchase agreements (the “Agreements”) with an independent third party relating to acquisition of 100% equity interests of eleven companies, which principal asset comprise 12 floors in a commercial building in Yuen Long at a total consideration of HK\$129,000,000, in accordance with the terms of the Agreements (the “Acquisition”). The Acquisition constitutes a discloseable transaction of the Company and is completed on 22 October 2018. Details of the Acquisition were set out in the announcement of the Company dated 24 July 2018.

The adjusted consideration of approximately HK\$128,094,000 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 properties in the ordinary course of the Group’s property investment business.

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

	Unaudited At 31 December 2018 HK\$’000
NET ASSETS ACQUIRED	
Investment properties	129,000
Prepayments and other receivables	181
Other payables	(1,087)
	<hr/>
Net Assets	128,094
	<hr/> <hr/>
Net cash outflow in connection with the acquisition of subsidiaries:	
Cash and cash equivalent balance acquired	–
Consideration paid	128,094
	<hr/>
	128,094
	<hr/> <hr/>

25. DISPOSAL OF SUBSIDIARIES

During the period, the Group disposal of its 100% equity interest of 恒和環保科技（江門）有限公司 and Wilber Corporate Services Limited, indirect wholly-owned subsidiaries of the Company, to an independent third party at a total consideration of HK\$1,686,000. The net assets of the companies at the date of disposal were as follows:

	Unaudited At 31 December 2018 HK\$'000
Assets/(Liabilities) disposal of:-	
Cash and cash equivalents	<u>2</u>
Net assets	2
Gain on disposal of subsidiaries	<u>1,684</u>
Total consideration	<u><u>1,686</u></u>
Consideration satisfied by cash	<u><u>1,686</u></u>
Net cash inflow arising from disposal:	
Cash consideration	1,686
Cash and cash equivalents disposal of	<u>(2)</u>
Net cash inflow of cash and cash equivalents in respect of the disposal	<u><u>1,684</u></u>

26. RELATED PARTY TRANSACTIONS

Saved as disclosed elsewhere in these condensed consolidated interim financial statements, during the interim period, the Group entered into the following related party transactions:

- (a) During the six months ended 31 December 2018, imputed interest expenses of HK\$721,000 (2017: HK\$2,645,000) were incurred to a related company of which Dr. Chan is a director and key management personnel.
- (b) During the six months ended 31 December 2018, interest of HK\$2,647,000 (2017: HK\$1,155,000) were incurred to ultimate holding company.
- (c) During the six months ended 31 December 2018, no interest expenses (2017: HK\$346,000) were paid to Dr. Chan in relation to the loan from a controlling shareholder.
- (d) Compensation of key management personnel.

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

	Unaudited	
	Six months ended	
	31 December	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
Short term employee benefits	5,327	5,877
Post-employment benefits	211	231
	<hr/>	<hr/>
	<u>5,538</u>	<u>6,108</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group's consolidated revenue for the six months ended 31 December 2018 recorded an increase of approximately 19.1% from HK\$205,527,000 for last interim period to HK\$244,755,000. During the period under review, profit attributable to owners of the Company was HK\$2,498,000, as compare to last interim profit of HK\$71,650,000. Such decrease in profit was mainly attributable to the absence of share of profit of joint venture approximately HK\$74,377,000 recorded in six months ended 31 December 2017 from a 50% joint venture that holds a shopping mall located in Shanghai, the P.R.C., which was disposed on 20 April 2018. For the six months ended 31 December 2018, basic earnings per share was HK0.04 cent (2017: HK1.05 cent).

BUSINESS REVIEW AND PROSPECTS

In the period under review, the overall economy remained uncertain with trade war talks between China and the United States, as well as growing concerns on Brexit and the European economy. For the jewellery segment, amidst of such economic conditions, the Group managed to achieve modest growth and recorded an increase in revenue of approximately HK\$27,893,000 or 13.6% from HK\$205,373,000 for the six months ended 31 December 2017 to HK\$233,266,000 for the corresponding period in 2018. The growth was partly due to the Group's strategic investment and expansion in the United Kingdom, as well as further penetration in core programs with customers. Through the introduction of higher quality products, the Group was able to maintain its profit margins within the highly competitive market space. At the same time, the Group has deployed more marketing efforts and initiatives to promote our products and company brand. We believe that this will strengthen our market position and will further enhance growth and opportunities for the Company.

In property investment, the Group holds a piece of land located at No. 232 Wan Chai Road, Hong Kong (the "Wan Chai Property") 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 26-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 has commenced in September 2018 and the superstructure will commence in 2019 3rd quarter and the building is expected to be completed in 2021. During the period, the Group has entered into an agreement to dispose of 25% of the interests in the Wan Chai Property. Upon the completion of the disposal, the Group shall hold 75% of the Wan Chai Property.

To further broaden the property portfolio, the Group has acquired 12 floors of Glassview Commercial Building at 65 Castle Peak Road, Yuen Long, New Territories (the “Yuen Long Properties”) at a total consideration of HK\$129,000,000, with a gross floor area of approximately 14,508 sq. ft. The Yuen Long Properties are currently fully let and is providing a steady rental income to the Group. The Group’s intention is to hold the Yuen Long Properties for long term investment. Since the acquisition of the Yuen Long Properties completed on 22 October 2018, it has generated approximately HK\$719,000 rental income in to the Group’s revenue.

Subsequent to the disposal of the 50% interest in the joint venture which holds the “Bauhinia Square” in Shanghai, the Group intends to use part of the proceeds to diversify its property portfolio. In 2018 4th quarter, the Group has entered into a sale and purchase agreement to acquire 90% equity interest in a company which its assets comprise of two 5-storey existing buildings at Nos. 7, 7A, 9, and 9A of Cheung Wah Street, Cheung Sha Wan (the “Cheung Wah Property”), with a site area of approximately 3,288 sq. ft. The plan is to redevelop the existing buildings into a 25-storey residential development with 2-storey of retail podium, with a proposed gross floor area of approximately 29,592 sq. ft. The demolition of the existing building is targeted to commence in 2019 2nd quarter, followed by foundation works. The completion of the acquisition is expected to take place in March 2019. In all, the management of the Group is optimistic about the potential return from the above property investments.

For our mining business, the operation at Hongzhuang Gold Mine was minimized. Activities such as re-visiting the old shaft were taken part in Yuanling site. Meanwhile, Company reviewing the result of second phase exploration at the north eastern part of Yuanling.

PROSPECTS

Looking ahead, we believe 2019 will be a very challenging year. In view of the growing tension between the United States and the Chinese government, the trading environment is difficult and vulnerable. Meanwhile, coupled with the uncertainty of Brexit and unrest economic situation in Europe will further affect the market sentiment and consumer spending on luxury goods. However, the Group remains optimistic and is actively exploring opportunities in expanding our business through strategic partnerships or joint ventures. We are confident that the Group will be able to set a stronger foothold in the industry and achieve better results in the future.

At the same time, the Group’s management has been actively looking into diversifying the revenue sources. By broadening our property investment as well as seeking other business or investment opportunities, we believe the Group will be able to provide a more attractive return on equity for its shareholders.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2018 (2017: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

As at 31 December 2018, the Group's gearing ratio was 0.01 (30 June 2018: zero), which is calculated on 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\$972,838,000 (30 June 2018: HK\$1,128,664,000) which were mainly denominated in Hong Kong Dollar, US Dollar, Renminbi and British Pound. Bank loans were HK\$611,831,000 (30 June 2018: HK\$611,000,000), which were denominated in Hong Kong Dollar. Other borrowings in respect of amounts due to related companies; loan from a controlling shareholder and loan from ultimate holding company were approximately of HK\$385,759,000 (30 June 2018: HK\$388,535,000). The bank loans are secured by first legal charges over the Group's investment properties, certain leasehold land and buildings, land use rights, pledged by ordinary shares of indirect wholly-owned subsidiaries of the Company and guaranteed by corporate guarantees executed by the Company.

The decrease in the Group's cash and cash equivalents as at 31 December 2018 were mainly due to the acquisition of commercial properties located at Yuen Long, Hong Kong. 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 of 31 December 2018, the Group's investment properties, certain leasehold land and buildings and land use rights with an aggregate net carrying value of HK\$1,469,402,000 (30 June 2018: HK\$1,320,921,000) were pledged to certain banks to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2018, the Company has provided guarantees to the extent of HK\$611,831,000 (30 June 2018: HK\$611,000,000) with respect to bank loans to its subsidiaries. Guarantees to the extent of HK\$1,530,000 (30 June 2018: Nil) 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 contracts 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 2018. 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.

NOTIFIABLE TRANSACTIONS

1. Acquisition of properties through acquisition of subsidiaries

On 20 July 2018, the Group had entered into 11 preliminary sale and purchase agreements (the "Glassview Agreements") with an independent third party relating to acquisition of 100% equity interests of eleven companies, which principal asset comprise 12 floors in a commercial building in Yuen Long at a total consideration of HK\$129,000,000, in accordance with the terms of the Glassview Agreements (the "Glassview Acquisition"). The Glassview Acquisition constitutes a discloseable transaction of the Company and is completed on 22 October 2018. Details of the Glassview Acquisition were set out in the announcement of the Company dated 24 July 2018.

2. Major and connected transactions

On 29 October 2018, the Company has entered into an agreement (the "Agreement") in respect of the major and connected transactions to (i) dispose of 25% indirect interests in a redevelopment property at Wan Chai Road (the "Disposal"); (ii) acquire 90% indirect interests in a redevelopment property at Cheung Wah Street (the "Acquisition"); (iii) form joint ventures for the redevelopment properties at Wan Chai Road and Cheung Wah Street; and (iv) repay the Company's shareholder loan (the "Transactions").

- (i) Under the Disposal, the Group will sell its 25% interests in Ontrack Ventures Limited ("Ontrack") to a company, which is indirectly owned by Dr. Chan Sing Chuk, Charles ("Dr. Chan"), Ms. Cheng Siu Yin, Shirley ("Ms. Shirley Cheng") and Mr. Chan Wai Lap, Victor ("Mr. Victor Chan") (all of whom are executive directors of the Company) and hence a connected person of the Company. At present, Ontrack is a wholly-owned subsidiary of the Group. After the Disposal, Ontrack will become a 75% owned subsidiary of the Group. Ontrack, indirectly holds a piece of land located at No. 232 Wan Chai Road, Wan Chai ("Property (Ontrack)"). It is proposed to develop into a 26-storey office and retail composite building. The initial consideration for the Disposal is estimated to be approximately HK\$186,800,000 (the "Consideration (Disposal)").

- (ii) Under the Acquisition, the Group will acquire 90% interests in Equal Glory Limited (“Equal Glory”) from a company (the “Vendor”), which is owned by Dr. Chan and hence a connected person of the Company. At present, Equal Glory is owned as to 90% by the Vendor and 10% by Plenty Business Limited (“Plenty Business”), a third party independent of the Company. After the Acquisition, Equal Glory will become a 90% owned subsidiary of the Group. Equal Glory indirectly holds the land and properties located at Nos. 7, 7A, 9 and 9A of Cheung Wah Street, Cheung Sha Wan (“Property (Equal Glory)”). The two 5-storey existing buildings erected on Property (Equal Glory) will be demolished. It is proposed to be developed into a 25-storey residential development over 2-storey of retail podium. The initial consideration for the Acquisition is estimated to be HK\$159,912,000.
- (iii) The Group will continue to undertake the development projects at Property (Ontrack) and Property (Equal Glory) in the form of joint ventures after their completion.
- (iv) Under the Agreement, the Company conditionally agreed to fully repay the company shareholder loan of HK\$350,000,000 (the “Company Shareholder Loan”) to Tamar Investments Group Limited (“Tamar Investments”), a company wholly owned by Dr. Chan, Ms. Shirley Cheng and Mr. Victor Chan. The Company Shareholder Loan is unsecured and bears interests at 1.5% per annum. On completion of the Disposal, the actual amount of Consideration (Disposal) will be set off against the repayment of the Company Shareholder Loan currently owed by the Company to Tamar Investments. The Company will repay the net balance of the Company Shareholder Loan after the set-off by cash.

The completion of the Transactions is expected to be in early March 2019. The details of the Transactions were set out in the announcements and the circular of the Company dated 29 October 2018, 2 November 2018 and 29 November 2018 respectively.

ADVANCE FROM A CONTROLLING SHAREHOLDER, ULTIMATE HOLDING COMPANY AND RELATED COMPANIES

On 25 September 2017, the Company as borrower entered into a loan agreement with Tamar Investments, the ultimate holding company of the Company, as lender in relation to loan facilities in the amount of HK\$350,000,000. The loans are unsecured, interest-bearing at 1.5% per annum, and repayable on 24 September 2020.

As at 31 December 2018, loans in the total amount of RMB4,000,000 (equivalent to approximately HK\$4,576,000) was advanced from Dr. Chan. Further details were set out in note 18 to the condensed consolidated interim financial statement.

As at 31 December 2018, total principal amount of HK\$33,862,000 remains outstanding owed by the Group to companies which Dr. Chan is a key management personnel/ultimate beneficial owner. These loans are unsecured and interest free and not repayable within the next twelve months from the reporting date.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31 December 2018, the Group employed a total of approximately 692 employees (30 June 2018: 660) with the majority in the PRC. The Group's remuneration to its employees is largely based on common industrial 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.

As at 31 December 2018, 120,000,000 share options were granted to certain directors of the Company at an exercise price of HK\$0.138, HK\$0.121, HK\$0.245 or HK\$0.149 each subject to the terms of the Company's share option scheme. 10,000,000 share options have been exercised during the year ended 30 June 2015 since the grant of the share options.

As at 31 December 2018, the following share options granted under the share option scheme of the Company were outstanding:

Name of Grantee	Date of Grant (dd/mm/yyyy)	Exercisable period	Exercise Price per Share (HK\$)	Number of share options			Balance as at 31 December 2018
				Balance as at 1 July 2018	Granted during the period	Exercise during the period	
Mr. Chan Wai Lap, Victor	19/06/2014	19/06/2014 – 18/06/2024	0.138	10,000,000	–	–	10,000,000
	07/07/2015	07/07/2015 – 06/07/2025	0.245	10,000,000	–	–	10,000,000
	03/11/2016	03/11/2016 – 02/11/2026	0.149	10,000,000	–	–	10,000,000
Ms. Chan Wai Kei, Vicki	19/06/2014	19/06/2014 – 18/06/2024	0.138	10,000,000	–	–	10,000,000
	07/07/2015	07/07/2015 – 06/07/2025	0.245	10,000,000	–	–	10,000,000
	03/11/2016	03/11/2016 – 02/11/2026	0.149	10,000,000	–	–	10,000,000
Mr. Yam Tat Wing	07/07/2015	07/07/2015 – 06/07/2025	0.245	10,000,000	–	–	10,000,000
	03/11/2016	03/11/2016 – 02/11/2026	0.149	10,000,000	–	–	10,000,000

Name of Grantee	Date of Grant (dd/mm/yyyy)	Exercisable period	Exercise Price per Share (HK\$)	Number of share options			Balance as at 31 December 2018
				Balance as at 1 July 2018	Granted during the period	Exercise during the period	
Mr. Wong Edward Gwon-hing	25/07/2014	25/07/2014- 24/07/2024	0.121	10,000,000	-	-	10,000,000
	07/07/2015	07/07/2015 - 06/07/2025	0.245	10,000,000	-	-	10,000,000
	03/11/2016	03/11/2016 - 02/11/2026	0.149	10,000,000	-	-	10,000,000
				110,000,000	-	-	110,000,000

Save as disclosed above, no other options under the Scheme were outstanding at the beginning or at the end of the period ended 31 December 2018 and no other options were granted, exercised, cancelled or lapsed at any time during the period.

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. 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 2018.

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

As at 31 December 2018, the interests and short positions of the Directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register maintained by the Company under Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as set out below:

Name of directors	Number of ordinary shares of the Company			Total	Percentage of the Company's issued share capital
	Personal interest	Corporate interest	Underlying interest		
Chan Sing Chuk, Charles	-	5,063,395,220 <i>(Note 1)</i>	-	5,063,395,220	74.12%
Cheng Siu Yin, Shirley	-	5,063,395,220 <i>(Note 1)</i>	-	5,063,395,220	74.12%
Chan Ping Kuen, Derek	200,000	-	-	200,000	0.003%
Chan Wai Lap, Victor	2,700,000	-	30,000,000 <i>(Note 2)</i>	32,700,000	0.48%
Chan Wai Kei, Vicki	-	-	30,000,000 <i>(Note 2)</i>	30,000,000	0.44%
Yam Tat Wing	2,400,000	-	20,000,000 <i>(Note 2)</i>	22,400,000	0.33%
Wong Edward Gwon-hing	-	-	30,000,000 <i>(Note 2)</i>	30,000,000	0.44%

Notes:

- Such interests are held by Tamar Investments Group Limited, which is a company owned as to 45% by Dr. Chan Sing Chuk, Charles, 45% by Ms. Cheng Siu Yin, Shirley and 10% by Mr. Chan Wai Lap, Victor. Mr. Chan Wai Lap, Victor, Dr. Chan Sing Chuk, Charles and Ms. Cheng Siu Yin, Shirley are also directors of Tamar Investments Group Limited.
- These interests represented the interests in underlying shares of the Company in respect of share options granted to the Directors.

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

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, no person, other than Mr. Chan Wai Lap, Victor, Dr. Chan Sing Chuk, Charles and Ms. Cheng Siu Yin, Shirley, whose interests are set out in the section “Directors’ interests and short positions in shares, underlying shares and debentures” above, had registered an interest in 5% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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 2018 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. 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. Shirley 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 A.6.7

Under the Code Provision A.6.7, Independent Non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Sze Irons, an Independent Non-executive Director of the Company, did not attend the AGM and the general meeting held on 17 December 2018 due to other business engagement. Other Independent Non-executive Directors were present at the AGM and the general meeting were available to answer questions.

4. 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 2018. 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.

DISCLOSURE PURSUANT TO RULE 13.51B OF THE LISTING RULES

1. Mr. Sze Irons, an independent non-executive director of the Company, was also appointed as an independent non-executive director of ST International Holdings Limited (Stock Code: 8521) and Best Mart 360 Holdings Limited (Stock Code: 2360), both companies are listed on the Stock Exchange with effect from 16 May 2018 and 11 January 2019 respectively.

Mr. Sze was appointed as a non-executive director of Bel Global Resources Holdings Limited (Stock Code: 761). With effect from 24 August 2018, the listing of the shares of the company on the Stock Exchange has been cancelled under the Listing Rules.

2. The remuneration packages of the following directors have been revised after taking consideration of their responsibilities and the prevailing market rates:

With effect from 1 January 2019, the monthly remunerations of Mr. Victor Chan, Ms. Chan Wai Kei, Vicki and Mr. Wong Edward Gwon-hing have been revised to HK\$205,000, HK\$92,000 and HK\$121,000 respectively.

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 2018.

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 2018. 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, 25 February 2019