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ZHONG FA ZHAN HOLDINGS LIMITED

中發展控股有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 475)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

The board of directors (the “Board”) of Zhong Fa Zhan Holdings Limited (the “Company”) is pleased to announce the unaudited interim results of the Company and its subsidiaries (“Zhong Fa Zhan” or the “Group”) for the six months ended 30 September 2012, which have been reviewed by the Company’s audit committee and external auditor, together with the comparative figures for the corresponding previous period as follows:

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2012

		Six months ended 30 September	
	<i>NOTES</i>	2012 <i>HK\$’000</i> (unaudited)	2011 <i>HK\$’000</i> (unaudited)
Continuing operations			
Revenue	3	38,428	39,871
Cost of sales		<u>(35,898)</u>	<u>(32,937)</u>
Gross profit		2,530	6,934
Other income		846	785
Other gains and losses	4	81	1,621
Distribution costs		(3,757)	(3,958)
Administrative expenses		(21,897)	(1,825)
Finance costs	5	<u>(13)</u>	<u>(162)</u>
(Loss) profit before taxation		(22,210)	3,395
Income tax credit	6	<u>—</u>	<u>4</u>
(Loss) profit for the period from continuing operations	8	<u>(22,210)</u>	<u>3,399</u>

		Six months ended	
		30 September	
	<i>NOTES</i>	2012	2011
		<i>HK\$'000</i>	<i>HK\$'000</i>
		(unaudited)	(unaudited)
Continuing operations			
(Loss) profit for the period from continuing operations	8	(22,210)	3,399
Discontinued operations			
Profit for the period from discontinued operations	7	—	8,428
(Loss) profit for the period		(22,210)	11,827
Other comprehensive (expense) income			
Exchange differences arising on translation		(389)	4,719
Total comprehensive (expense) income for the period		<u>(22,599)</u>	<u>16,546</u>
(Loss) earnings per share			
<i>From continuing and discontinued operations</i>			
Basic and diluted	9	<u>HK(8.12) cents</u>	<u>HK4.34 cents</u>
<i>From continuing operations</i>			
Basic and diluted		<u>HK(8.12) cents</u>	<u>HK1.25 cents</u>

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2012

		At 30 September 2012 <i>HK\$'000</i> (unaudited)	At 31 March 2012 <i>HK\$'000</i> (audited)
Non-current assets			
Property, plant and equipment		<u>13,081</u>	<u>13,509</u>
Current assets			
Inventories		23,441	26,037
Trade receivables	11	19,027	13,765
Deposits, prepayments and other receivables		2,486	6,813
Bank balances and cash		<u>14,833</u>	<u>10,538</u>
		<u>59,787</u>	<u>57,153</u>
Current liabilities			
Trade payables	12	21,007	14,082
Other payables and accruals		<u>5,882</u>	<u>4,382</u>
		<u>26,889</u>	<u>18,464</u>
Net current assets		<u>32,898</u>	<u>38,689</u>
Total assets less current liabilities		<u><u>45,979</u></u>	<u><u>52,198</u></u>
Capital and reserves			
Share capital	13	2,736	2,736
Share premium and reserves		<u>42,941</u>	<u>49,159</u>
Equity attributable to owners of the Company		45,677	51,895
Non-current liabilities			
Deferred tax liabilities		<u>302</u>	<u>303</u>
		<u><u>45,979</u></u>	<u><u>52,198</u></u>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION AND GENERAL

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

After the distribution of certain businesses to the shareholders of the Company as disclosed in note 7 during the year ended 31 March 2012, the Group is principally engaged in the jewelry manufacturing and trading business in the People Republic of China (“PRC”). As at 1 April 2012, the directors reassessed the functional currency of the Company and it is considered that Renminbi (“RMB”) better reflects the underlying transaction of the primary economic environment of the Company as the existing subsidiaries are substantially operated in the PRC and the future investments plans of the Company will also be focused mainly in the PRC. Accordingly, the directors determined that functional currency of the Company changed from Hong Kong dollar (“HK\$”) to RMB from that day. For the convenience of the consolidated financial statements users, the consolidated financial statements are presented in HK\$, as the Company’s shares are listed in Hong Kong.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 September 2012 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 March 2012. In addition, the accounting policy in respect of change in functional currency was newly adopted during the six months ended 30 September 2012.

Change in functional currency

Functional currency of a group entity is changed only if there is a change to the underlying transactions, events and conditions relevant to the entity. The entity applied the translation procedures applicable to the new functional currency prospectively. At the date of change, the entity translates all items into the new functional currency using the exchange rate prevailing at that date and the resulting translated amounts for non-monetary items are treated as the historical cost. Exchange differences arising from the translation of foreign operations recognised in translation reserve are not recognised in profit or loss until the disposal of the foreign operation.

Besides, in the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the HKICPA.

HKFRS 7 (Amendments)	Financial instruments: Disclosures — Transfers of financial assets
HKAS 12 (Amendments)	Deferred tax: Recovery of underlying assets

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

3. REVENUE AND SEGMENT INFORMATION

Revenue

Revenue represents the amounts received and receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Segmental information

The Group operates and manages its business as a single segment that includes primarily the jewelry manufacturing and wholesale business. The Chief Executive, the Group's chief operating decision maker, reviews the revenue derived from customers in different geographical locations when making decisions about allocating resources and assessing performance of the Group. As no other discrete financial information is available for the assessment of performance of the different locations, no other segment information is presented.

After the distribution in specie as disclosed in note 7, the revenue derived from the Group's continuing operations was solely from the customers in the PRC.

4. OTHER GAINS AND LOSSES

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Net foreign exchange gain	<u>81</u>	<u>1,621</u>

5. FINANCE COSTS

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Interest on borrowings wholly repayable within five years	—	155
Bank charges	<u>13</u>	<u>7</u>
	<u>13</u>	<u>162</u>

6. INCOME TAX CREDIT

	Six months ended 30 September	
	2012	2011
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Continuing operations		
Deferred taxation	<u>—</u>	<u>(4)</u>

No provision for Hong Kong Profits Tax has been made as there were no assessable profits generated in Hong Kong for both periods.

No provision for PRC Enterprise Income Tax has been made for the Group's PRC subsidiary as the PRC subsidiary has no assessable profits for both periods.

7. DISCONTINUED OPERATIONS

On 7 September 2011, certain shareholders of the Company and Resources Rich Capital Limited, as purchaser, entered into an agreement in respect of the acquisition of 72.56% of the then entire issued share capital of the Company. The agreement was conditional upon, among other things, the completion of the proposed reorganisation of the Group (the “Group Reorganisation”). As part of the Group Reorganisation, the Group proposed to (i) distribute the whole of fine jewelry design, manufacture and trading businesses (the “Distributed Business”) other than jewelry manufacture and trading business in the PRC (the “Retained Business”), for which would be retained by the Group, in specie to the shareholders of the Company; (ii) cease the PRC jewelry retail business (the “Ceased Business”) in the Retained Business. The proposed distribution in specie was approved by the shareholders of the Company at an extraordinary general meeting held on 20 October 2011 and the distribution was completed on 21 November 2011.

The Distributed Business and Ceased Business were classified as discontinued operations and the related results for the six months ended 30 September 2011 were as follows:

	<i>HK\$'000</i>
For the six months ended 30 September 2011 (unaudited)	
Turnover	330,193
Cost of sales	<u>(227,977)</u>
Gross profit	102,216
Other income	2,200
Other gains and losses	5,498
Distribution costs	(19,738)
Administrative expenses	(79,297)
Finance costs	(3,666)
Share of profits of associates	<u>4,367</u>
Profit before taxation	11,580
Income tax expense	<u>(3,152)</u>
Profit for the period from discontinued operations	<u><u>8,428</u></u>

The net cash flows of the discontinued operations for the six months ended 30 September 2011 were as follows:

	<i>HK\$'000</i>
For the six months ended 30 September 2011 (unaudited)	
Net cash flows used in operating activities	(77,797)
Net cash flows from investing activities	24,182
Net cash flows from financing activities	<u>45,338</u>
Net cash flows incurred by the discontinued operations	<u><u>(8,277)</u></u>

8. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging:

	Six months ended 30 September	
	2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Continuing operations		
Cost of inventories recognised as expense	35,898	32,937
Depreciation of property, plant and equipment	140	501
Staff cost (including directors' remuneration)	5,336	3,204
Share-based payments (included in administrative expenses)	16,381	—
Auditor's remuneration	120	300

9. (LOSS) EARNINGS PER SHARE

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

	Continuing and discontinued operations		Continuing operations	
	Six months ended 30 September		Six months ended 30 September	
	2012 HK\$'000	2011 HK\$'000	2012 HK\$'000	2011 HK\$'000
The Group's (loss) profit for the period attributable to owners of the Company for the purposes of basic and diluted earnings per share calculation	<u>(22,210)</u>	<u>11,827</u>	<u>(22,210)</u>	<u>3,399</u>
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	<u>273,610</u>	<u>272,655</u>	<u>273,610</u>	<u>272,655</u>

Basic and diluted earnings per share for the discontinued operation for the six months ended 30 September 2011 was 3.09 HK cents per share, based on the profit for the year from the discontinued operations of HK\$8.4 million and the denominators detailed above for both basic and diluted earnings per share.

The computation of diluted loss per share for the six months ended 30 September 2012 does not assume the exercise of the Company's outstanding share options as their exercise would result in a decrease in loss per share.

The computation of diluted earnings per share for the six months ended 30 September 2011 did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price for shares for the period.

10. DIVIDENDS

No dividends were paid, declared or proposed during the interim period. The directors have determined that no dividend will be paid in respect of the current interim period.

Except for the distribution in specie proposed in note 7, no dividends were paid, declared or proposed during the six months ended 30 September 2011.

11. TRADE RECEIVABLES

The credit terms granted by the Group to its customers normally range from nil to 180 days.

The following is an analysis of the Group's trade receivables by age, presented based on the invoice date, net of allowance for doubtful debts.

	At 30 September 2012 <i>HK\$'000</i> (unaudited)	At 31 March 2012 <i>HK\$'000</i> (audited)
Within 1 month	9,827	3,826
Over 1 month but within 3 months	6,744	4,748
Over 3 months but within 6 months	1,517	5,191
Over 6 months	939	—
	<u>19,027</u>	<u>13,765</u>

12. TRADE PAYABLES

The following is an analysis of the Group's trade payables by age, presented based on the invoice date.

	At 30 September 2012 <i>HK\$'000</i> (unaudited)	At 31 March 2012 <i>HK\$'000</i> (audited)
Within 1 month	2,425	1,160
Over 1 month but within 3 months	4,026	12,922
Over 3 months but within 6 months	5,177	—
Over 6 months	9,379	—
	<u>21,007</u>	<u>14,082</u>

13. SHARE CAPITAL

	Number of shares '000	Amount <i>HK\$'000</i>
Ordinary shares with nominal value of HK\$0.01 each Authorised		
As at 31 March 2012 and 30 September 2012	<u>10,000,000</u>	<u>100,000</u>
Issued and fully paid:		
At 1 April 2011 (audited)	271,700	2,717
Exercise of share options	<u>1,910</u>	<u>19</u>
At 31 March 2012 (audited) and 30 September 2012 (unaudited)	<u>273,610</u>	<u>2,736</u>

14. SHARE-BASED PAYMENTS

The Company's share option scheme was adopted pursuant to a resolution passed on 26 February 2007 for the primary purpose of providing incentives to directors and eligible participants.

In the current interim period, 24,090,000 share options were granted on 27 June 2012. The options granted are all vested at the date of grant and exercisable during the period from 27 June 2012 to 30 December 2016. The fair value of the options determined at the date of grant using the Binomial model was approximately HK\$16,381,000. The closing price of the Company's shares immediately before 27 June 2012, the date of grant, was HK\$1.53. No options were forfeited or exercised during the period.

The following assumptions were used to calculate the fair values of share options:

Grant date share price	HK\$1.53
Exercise price	HK\$1.53
Expected life	4.5 years
Expected volatility	55%
Expected dividend yield	0%
Risk-free interest rate	0.352%

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

15. OPERATING LEASES COMMITMENTS

As lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	At 30 September 2012 <i>HK\$'000</i> (unaudited)	At 31 March 2012 <i>HK\$'000</i> (audited)
Within one year	452	293
In the second to fifth year	679	562
Later than five years	363	253
	<u>1,494</u>	<u>1,108</u>

16. RELATED PARTY TRANSACTIONS

Compensation of key management personnel

The remuneration of directors and other members of key management during the period was as follows:

	Six months ended 30 September	
	2012	2011
	<i>HK\$'000</i>	<i>HK\$'000</i>
	(unaudited)	(unaudited)
Short-term employee benefits	1,974	5,018
Post-employment benefit	14	39
Share-based payments	10,057	—
	<u>12,045</u>	<u>5,057</u>

Other than as disclosed above, there was no material related party transactions during the current interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The sales turnover of the Group from continuing operations dropped by 3.8% from approximately HK\$39.9 million to approximately HK\$38.4 million for the period under review (the “Review Period”). As a result of the additional production costs following the group reorganization in 2011 and the surge of raw materials prices, which cannot be fully transferred to customers owing to the keen competition in the jewelry market, the gross profit margin dropped significantly from 17.3% to 6.5% to approximately HK\$2.5 million during the Review Period.

A one-off expense of approximately HK\$16.4 million was resulted from the issuance of share options of the Company. The Company has issued share options to its directors and other eligible participants (the “Share Options”) in June 2012, the fair value of the Share Options has been recorded as an expense to the Company in the Review Period as required by the Hong Kong Financial Reporting Standard 2 — Share-based Payment (HKFRS 2) issued by the Hong Kong Institute of Certified Public Accountants.

In addition, in the corresponding period in 2011, significant profit was generated from the Group’s now discontinued operations, which did not recur during the Review Period.

The Group therefore recorded a net loss of approximately HK\$22.2 million (2011: net profit of HK\$3.4 million) from continuing operations for the six months ended 30 September 2012. Basic loss per share from continuing operations were 8.1 HK cents (2011: basic earnings per share were 1.3 HK cents).

Business Review

Although the market sentiment has not been fully recovered, the Group was able to maintain the sales turnover at approximately HK\$38.4 million as compared to approximately HK\$39.9 million for the corresponding period under review by sales through setting up of different regional sales teams. The purchasing power and jewelry trend varied in different parts of the PRC and therefore the strategy of geographical diversification across the PRC market has been proved to be effective and fruitful in performing the business in the region during the Review Period. Following the group reorganization in 2011, the Group has to be separately responsible for certain production processes and administrative supports, such as jewelry molding, product development and IT support, which was previously borne by companies of the disposal group before the group reorganization. Furthermore all cost increment could not be passed entirely onto the customers of the Company. Accordingly, the gross profit of the Group dropped significantly.

Future Prospects

Recent volatile and unstable global economic environment following the European debt crisis and the easing currency policy continued by the US government did slow down the export and the economic growth of Mainland China, which might adversely affect the jewelry industry and the demand for the Group’s jewelry products in the PRC. The management, however, will continue to strengthen its production efficiency and design capacity, implement stringent cost control measures and explore to further diversify its wholesale network in the PRC through establishment of new regional sales teams to improve the operating result. The Group will closely monitor and review the business operations and financial position of the Group for the purpose of formulating business plans and strategies for the future business development of the Group. Should suitable investment or

business opportunities arise, the Group may consider diversifying the business of the Group with an objective to broaden its income source.

Liquidity and Financial Resources

As at 30 September 2012, the Group's net current assets and current ratio stood at HK\$32.9 million and 2.2 respectively (31 March 2012: HK\$38.7 million and 3.1 respectively). Net gearing ratio (total interest bearing borrowings net of bank balances and cash as a percentage of total equity) was nil as at 30 September 2012 (31 March 2012: Nil).

As at 30 September 2012, the Group had no bank borrowings (31 March 2012: Nil) and no banking facilities (31 March 2012: Nil). As at 30 September 2012, the Group's bank balances and cash amounted to HK\$14.8 million (31 March 2012: HK\$10.5 million).

Charges on Group Assets

As at 30 September 2012, the Group did not have any charges on the Group's assets (31 March 2012: Nil).

Capital Structure

For the six months ended 30 September 2012, the Group financed its liquidity requirements through cash flow as generated from operation.

Dividend

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 September 2012.

Capital Commitment and Contingent Liabilities

As at 30 September 2012, the Group did not have any capital commitments (31 March 2012: Nil) and had HK\$1.5 million of operating lease commitments (31 March 2012: HK\$1.1 million). As at 30 September 2012, the Group did not have any significant contingent liabilities (31 March 2012: Nil).

Staff and Remuneration Policy

As at 30 September 2012, the Group had a total of 68 employees (31 March 2012: 85). Staff costs from continuing operations for the Review Period was HK\$5.3 million, representing an increase of 65.6% as compared to the corresponding period ended 30 September 2011 of HK\$3.2 million. The Group remunerates its employees based on their performance and work experience and the prevailing market rates. Salaries of employees are maintained at competitive levels while bonuses are granted by reference to the performance of the Group and individual employees. The Group also provides internal training to its employees when necessary and other benefits including share option scheme and contribution to statutory mandatory provident fund scheme to its employees in Hong Kong and the statutory central pension schemes to its employees in the PRC.

Foreign Exchange Fluctuation and Hedges

Currently, the Group was principally based in the PRC and was not significantly exposed to foreign exchange risk. Foreign exchange risk arises from future commercial transaction and recognized assets and liabilities. While the Group would closely monitor the volatility of the Renminbi exchange rate,

the directors considered that the Group's risk exposure to foreign exchange rate fluctuation remained minimal currently.

As at 30 September 2012, no forward foreign currency contracts are designated in hedging accounting relationships (31 March 2012: Nil).

CORPORATE GOVERNANCE PRACTICES

The Company has adopted the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rule Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong Limited. The Company has applied the principles and complied with all the applicable code provisions set out in the Code throughout the six months ended 30 September 2012.

MODEL CODE FOR SECURITIES TRANSACTIONS

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. Having made specific enquiry of all directors of the Company, they confirmed that they have complied with the required standard set out in the Model Code throughout the six months ended 30 September 2012.

AUDIT COMMITTEE AND INDEPENDENT REVIEW BY EXTERNAL AUDITOR

The Company has established an audit committee with written terms of reference in compliance with the code provisions under the Code set out in Appendix 14 to the Listing Rules. The audit committee comprises three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha. The Group's unaudited interim results for the six months ended 30 September 2012 have been reviewed and approved by the audit committee at an audit committee meeting held on 21 November 2012.

The Group's external auditor, Deloitte Touche Tohmatsu, has been appointed to review the interim financial information. On the basis of their review, they are not aware of any material modifications that should be made to the interim financial information for the six months ended 30 September 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed Shares during the six months ended 30 September 2012.

By Order of the Board
ZHONG FA ZHAN HOLDINGS LIMITED
Chan Wing Yuen, Hubert
Chief Executive & Executive Director

Hong Kong, 23 November 2012

As at the date of this announcement, the Board consists of four executive Directors, namely Mr. Wu Hao, Mr. Hu Yangjun, Mr. Hu Yishi and Mr. Chan Wing Yuen, Hubert; a non-executive Director, namely Mr. Li Wei Qi, Jacky; and three independent non-executive Directors, namely Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha.