



ZHONG FA ZHAN HOLDINGS LIMITED

(incorporated in the Cayman Islands with limited liability)
Stock Code: 475

Interim
2012/13 Report



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CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr. Wu Hao (*Chairman*)

Mr. Hu Yangjun

Mr. Hu Yishi

Mr. Chan Wing Yuen, Hubert (*Chief Executive*)

Non-executive Director

Mr. Li Wei Qi, Jacky

Independent non-executive Directors

Mr. Wu Chi Keung

Mr. Heung Chee Hang, Eric

Ms. Kwok Pui Ha

Audit Committee

Mr. Wu Chi Keung (*Chairman*)

Mr. Heung Chee Hang, Eric

Ms. Kwok Pui Ha

Remuneration Committee

Mr. Wu Chi Keung (*Chairman*)

Mr. Chan Wing Yuen, Hubert

Mr. Heung Chee Hang, Eric

Nomination Committee

Mr. Wu Chi Keung (*Chairman*)

Mr. Chan Wing Yuen, Hubert

Ms. Kwok Pui Ha

Company Secretary

Mr. Ng Kwok Kit

Head Office and Principal Place of Business in Hong Kong

Unit 16-A3, 1/F.

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Hung Hom

Kowloon

Hong Kong

Registered Office

Cricket Square

Hutchins Drive

P.O. Box 2681

Grand Cayman KY1-1111

Cayman Islands

Principal Share Registrar

Butterfield Fulcrum Group (Cayman) Limited

Butterfield House

68 Fort Street

P.O. Box 609

Grand Cayman KY1-1107

Cayman Islands

Hong Kong Branch Share Registrar and Transfer Office

Tricor Investor Services Limited

26th Floor, Tesbury Centre

28 Queen's Road East

Wanchai

Hong Kong

Principal Bankers

The Hong Kong and Shanghai Banking

Corporation Limited

Hang Seng Bank Limited

Legal Adviser

Angela Ho & Associates

Auditor

Deloitte Touche Tohmatsu

Company Website

www.475hk.com

Stock Code

00475

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The sales turnover of Zhong Fa Zhan Holdings Limited (the "Company") and its subsidiaries (collectively referred to as 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 (the "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 (the "HKICPA").

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 People Republic of China ("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 information technology 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 United States of America 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.



MANAGEMENT DISCUSSION AND ANALYSIS (Continued)

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 of directors (the "Board") of the Company 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 ("RMB") 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 AND OTHER INFORMATION

Share Option Scheme

The Group has approved and adopted a share option scheme on 26 February 2007 for its employees and other eligible participants with a view to provide an incentive to or as a reward for their contribution to the Group.

24,090,000 Share Options were granted to Directors and other eligible participants 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. Details of the calculation of the fair value of the options granted are set out in note 14 to the condensed consolidated financial statements.

Details of the movements of Share Options granted, exercised or cancelled/lapsed during the period under review and outstanding as at 30 September 2012 are as follows:

	Number of Share Options					Exercise price HK\$	Closing price immediately before the date of grant HK\$
	At 1 April 2012	Granted during the period	Exercised during the period	Cancelled/ lapsed during the period	Outstanding as at 30 September 2012		
Directors:							
Wu Hao	—	2,736,000	—	—	2,736,000	27 June 2012 to 30 December 2016	1.53
Hu Yangjun	—	2,736,000	—	—	2,736,000	27 June 2012 to 30 December 2016	1.53
Hu Yishi	—	2,736,000	—	—	2,736,000	27 June 2012 to 30 December 2016	1.53
Chan Wing Yuen, Hubert	—	2,736,000	—	—	2,736,000	27 June 2012 to 30 December 2016	1.53
Li Wei Qi, Jacky	—	2,736,000	—	—	2,736,000	27 June 2012 to 30 December 2016	1.53
Wu Chi Keung	—	270,000	—	—	270,000	27 June 2012 to 30 December 2016	1.53
Heung Chee Hang, Eric	—	270,000	—	—	270,000	27 June 2012 to 30 December 2016	1.53
Kwok Pui Ha	—	270,000	—	—	270,000	27 June 2012 to 30 December 2016	1.53
Total Directors	—	14,490,000	—	—	14,490,000		
Employees	—	4,200,000	—	—	4,200,000	27 June 2012 to 30 December 2016	1.53
Total Employees	—	4,200,000	—	—	4,200,000		
Other Grantees	—	5,400,000	—	—	5,400,000	27 June 2012 to 30 December 2016	1.53
Total Other Grantees	—	5,400,000	—	—	5,400,000		
Total All Categories	—	24,090,000	—	—	24,090,000		



CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Directors' Interests and Short Positions in Shares

As at 30 September 2012, the interests and short positions of the Directors and their associates in the shares and underlying shares of the Company ("Shares") as recorded in the register to be kept under Section 352 of the Securities and Futures Ordinance ("SFO") were as follows:

Long Positions

Ordinary Shares of HK\$0.01 each

Name of Director	Capacity	Number of issued ordinary Shares held (Including underlying Shares)	Percentage of the issued ordinary share capital of the Company (Note 1)
Mr. Wu Hao	(Note 2)	2,736,000	1.00%
Mr. Hu Yangjun	(Note 3)	207,454,000	75.82%
Mr. Hu Yishi	(Note 4)	207,454,000	75.82%
Mr. Chan Wing Yuen, Hubert	(Note 2)	2,736,000	1.00%
Mr. Li Wei Qi, Jacky	(Note 2)	2,736,000	1.00%
Mr. Wu Chi Keung	(Note 5)	270,000	0.10%
Mr. Heung Chee Hang, Eric	(Note 5)	270,000	0.10%
Ms. Kwok Pui Ha	(Note 5)	270,000	0.10%

Notes:

- (1) The share options granted by the Company to Directors which are outstanding as shown under the section "Share Option Scheme" of this interim report have been included in the long positions of respective Directors.
- (2) Each of Mr. Wu Hao, Mr. Chan Wing Yuen, Hubert and Mr. Li Wei Qi, Jacky had a direct interest of 2,736,000 Shares which are outstanding share options granted by the Company to subscribe for 2,736,000 Shares at exercise price of HK\$1.53 per Share.
- (3) Mr. Hu Yangjun had a direct interest of 2,736,000 Shares which are outstanding share options granted by the Company to subscribe for 2,736,000 Shares at exercise price of HK\$1.53 per Share and a deemed interest of 204,718,000 Shares held by Resources Rich Capital Limited ("Resources Rich"), a company 50% owned by Mr. Hu Yangjun, within the meaning of Part XV of the SFO.
- (4) Mr. Hu Yishi had a direct interest of 2,736,000 Shares which are outstanding share options granted by the Company to subscribe for 2,736,000 Shares at exercise price of HK\$1.53 per Share and a deemed interest of 204,718,000 Shares held by Resources Rich, a company 50% owned by Mr. Hu Yishi, within the meaning of Part XV of the SFO.
- (5) Each of Mr. Wu Chi Keung, Mr. Heung Chee Hang, Eric and Ms. Kwok Pui Ha had a direct interest of 270,000 Shares which are outstanding share options granted by the Company to subscribe for 270,000 Shares at exercise price of HK\$1.53 per Share.

Save as disclosed above, as at 30 September 2012, no interests and short position in the Shares or underlying Shares were held or deemed or taken to be held under Part XV of the SFO by any Director or chief executive of the Company or any of their respective associates which are required pursuant to Section 352 of the SFO to be entered in the register referred to therein.

CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

Substantial Shareholders' Interests in Shares

As at 30 September 2012, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors and their associates, the following shareholders have notified the Company of relevant interests in the issued share capital of the Company:

Long Positions

Ordinary Shares of HK\$0.01 each

Name of Shareholder	Capacity	Number of issued ordinary Shares held	Percentage of the issued ordinary share capital of the Company
Resources Rich	(Note 1)	204,718,000	74.82%
Zhang Qi	(Note 2)	207,454,000	75.82%
Lin Min	(Note 3)	207,454,000	75.82%

Notes:

- (1) 50% of the entire issued share capital of Resources Rich is owned by Mr. Hu Yangjun while the other 50% is owned by Mr. Hu Yishi. Mr. Hu Yangjun and Mr. Hu Yishi are deemed to be interested in all the Shares in which Resources Rich is interested by virtue of the SFO.
- (2) Ms. Zhang Qi is the spouse of Mr. Hu Yangjun. Accordingly, she is deemed to be interested in the 207,454,000 Shares which Mr. Hu Yangjun is interested in pursuant to the SFO.
- (3) Ms. Lin Min is the spouse of Mr. Hu Yishi. Accordingly, she is deemed to be interested in the 207,454,000 Shares which Mr. Hu Yishi is interested in pursuant to the SFO.

Save as disclosed above, as at 30 September 2012, no other parties, other than the Directors whose interests are set out in the section "Directors' Interests and Short Positions in Shares" above, had registered an interest or short position in the Shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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.



CORPORATE GOVERNANCE AND OTHER INFORMATION (Continued)

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.

Change in Information of Director

Mr. Wu Chi Keung, independent non-executive director of the Company, has resigned as the independent non-executive director and the member of the audit committee and remuneration committee of JF Household Furnishings Limited (stock code: 776) with effect from 5 October 2012.

On behalf of the Board

Wu Hao

Chairman and Executive Director

Hong Kong, 23 November 2012

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



TO THE BOARD OF DIRECTORS OF ZHONG FA ZHAN HOLDINGS LIMITED
(Incorporated in the Cayman Islands with limited liability)

Introduction

We have reviewed the condensed consolidated financial statements of Zhong Fa Zhan Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 10 to 20, which comprise the condensed consolidated statement of financial position as of 30 September 2012 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Without qualifying our review conclusion, we draw attention to the fact that the comparative condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the six-month period ended 30 September 2011 and the relevant explanatory notes disclosed in these condensed consolidated financial statements have not been reviewed in accordance with Hong Kong Standard on Review Engagements 2410 issued by the HKICPA and the consolidated financial statements for the year ended 31 March 2012 were audited by another auditor who expressed an unmodified opinion on those statements on 22 June 2012.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong

23 November 2012



CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 September 2012

	NOTES	Six months ended 30 September 2012 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Continuing operations			
Revenue	3	38,428	39,871
Cost of sales		(35,898)	(32,937)
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	(13)	(162)
(Loss) profit before taxation		(22,210)	3,395
Income tax credit	6	—	4
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		(22,599)	16,546
(Loss) earnings per share	9		
<i>From continuing and discontinued operations</i>			
Basic and diluted		HK(8.12) cents	HK4.34 cents
<i>From continuing operations</i>			
Basic and diluted		HK(8.12) cents	HK1.25 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2012

	NOTES	At 30 September 2012 HK\$'000 (unaudited)	At 31 March 2012 HK\$'000 (audited)
Non-current assets			
Property, plant and equipment		13,081	13,509
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		14,833	10,538
		59,787	57,153
Current liabilities			
Trade payables	12	21,007	14,082
Other payables and accruals		5,882	4,382
		26,889	18,464
Net current assets		32,898	38,689
Total assets less current liabilities		45,979	52,198
Capital and reserves			
Share capital	13	2,736	2,736
Share premium and reserves		42,941	49,159
Equity attributable to owners of the Company		45,677	51,895
Non-current liabilities			
Deferred tax liabilities		302	303
		45,979	52,198



CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2012

	Share capital HK\$'000	Share premium account HK\$'000	Merger reserve HK\$'000	options reserve HK\$'000	Capital reserve HK\$'000	Revaluation reserve HK\$'000	Exchange reserve HK\$'000	Retained profits (accumulated loss) HK\$'000	Total HK\$'000
At 1 April 2012 (audited)	2,736	32,243	—	—	—	878	7,591	8,447	51,895
Loss for the period	—	—	—	—	—	—	—	(22,210)	(22,210)
Other comprehensive expense for the period	—	—	—	—	—	—	(389)	—	(389)
Total comprehensive expense for the period	—	—	—	—	—	—	(389)	(22,210)	(22,599)
Recognition of equity-settled share-based payments	—	—	—	16,381	—	—	—	—	16,381
At 30 September 2012 (unaudited)	2,736	32,243	—	16,381	—	878	7,202	(13,763)	45,677
At 1 April 2011 (audited)	2,717	79,836	1,593	—	1,445	6,837	11,034	171,864	275,326
Profit for the period	—	—	—	—	—	—	—	11,827	11,827
Other comprehensive income for the period	—	—	—	—	—	—	4,719	—	4,719
Total comprehensive income for the period	—	—	—	—	—	—	4,719	11,827	16,546
Transfer between reserves upon disposal of properties	—	—	—	—	—	(4,636)	—	4,636	—
Share options exercised	19	2,407	—	—	—	—	—	—	2,426
At 30 September 2011 (unaudited)	2,736	82,243	1,593	—	1,445	2,201	15,753	188,327	294,298

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2012

	Six months ended 30 September	
	2012	2011
	HK\$'000 (unaudited)	HK\$'000 (unaudited)
Net cash from (used in) operating activities	4,378	(20,311)
Net cash from investing activities		
Acquisition of associates	—	(4,035)
Purchases of property, plant and equipment	—	(1,373)
Interest received	21	134
Proceeds on disposal of property, plant and equipment	—	30,500
	21	25,226
Net cash used in financing activities		
Shares issued upon exercise of options	—	2,426
New bank borrowing raised	—	4,250
Repayment in bank borrowings	—	(14,601)
	—	(7,925)
Net increase (decrease) in cash and cash equivalents	4,399	(3,010)
Cash and cash equivalents at beginning of the period	10,538	9,361
Effect of foreign exchange rate changes	(104)	320
Cash and cash equivalents at end of the period	14,833	6,671
Analysis of balances of cash and cash equivalents		
Bank balances and cash	14,833	10,015
Bank balances and cash attributable to a discontinued operation	—	10,743
Bank overdrafts	—	(14,087)
	14,833	6,671



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 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 PRC. As at 1 April 2012, the Directors reassessed the functional currency of the Company and it is considered that 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)
HKAS 12 (Amendments)

Financial instruments: Disclosures — Transfers of financial assets
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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Board, the Group's chief operating decision makers, review 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 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Continuing operations		
Net foreign exchange gain	81	1,621

5. Finance Costs

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

6. Income Tax Credit

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

6. Income Tax Credit (Continued)

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:

	HK\$'000
For the six months ended 30 September 2011 (unaudited)	
Turnover	330,193
Cost of sales	(227,977)
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	4,367
Profit before taxation	11,580
Income tax expense	(3,152)
Profit for the period from discontinued operations	8,428

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Discontinued Operations (Continued)

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

	HK\$'000
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	45,338
Net cash flows incurred by the discontinued operations	(8,277)

8. (Loss) Profit for the Period

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

	Six months ended 30 September	
	2012	2011
	HK\$'000	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	2011	2012	2011
	HK\$'000	HK\$'000	HK\$'000	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	(22,210)	11,827	(22,210)	3,399
	'000	'000	'000	'000
Weighted average number of ordinary shares for the purposes of basic and diluted (loss) earnings per share	273,610	272,655	273,610	272,655

9. (Loss) Earnings Per Share (Continued)

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 HK\$'000 (unaudited)	At 31 March 2012 HK\$'000 (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	—
	19,027	13,765

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 HK\$'000 (unaudited)	At 31 March 2012 HK\$'000 (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	—
	21,007	14,082

13. Share Capital

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

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.

14. Share-Based Payments (Continued)

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

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 HK\$'000 (unaudited)	2011 HK\$'000 (unaudited)
Short-term employee benefits	1,974	5,018
Post-employment benefit	14	39
Share-based payments	10,057	—
	12,045	5,057

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