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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00513)

**ISSUE OF UNLISTED WARRANTS
UNDER CONSULTANCY AGREEMENTS**

On 4 December 2009, the Company entered into the Consultancy Agreements with Digichina and Paramount (as Consultants) respectively to engage them as consultants for provision of business development, strategies and advisory services including seeking (i) suitable business projects for the development or diversification of the business of the Company; and (ii) suitable business partners/investors from China for the Company for fund raising projects.

Under each of the Consultancy Agreements with Digichina and Paramount, the Company agreed to issue to each of them unlisted Warrants in the amount of HK\$43,125,000. Upon full exercise of the Warrants to be issued to both Consultants in the aggregate amount of HK\$86,250,000 at the price of HK\$1.725 per Share, a total of 50,000,000 new Warrant Shares will be issued by the Company. The Warrants may be exercised during a period from 1 April 2010 to the day falling 24 months after the date of issue of the Warrants (both dates inclusive). The Warrants Shares will be issued under the General Mandate.

The net proceeds receivable from the issue and exercise of the Warrants up to approximately HK\$86,150,000 will be used by the Group for future investment should opportunities arise and the remaining will be applied as general working capital of the Group.

The Directors (including the independent non-executive Directors) consider that the terms of issue of the Warrants are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

A. CONSULTANCY AGREEMENTS

On 4 December 2009, the Company entered into the Consultancy Agreements with Digichina and Paramount respectively to engage them as consultants for provision of business development, strategies and advisory services including seeking (i) suitable business projects for the development or diversification of the business of the Company; and (ii) suitable business partners/investors from China for the Company for fund raising projects. The material terms and conditions of the Consultancy Agreements with both Consultants are substantially identical to each other as summarized below:–

Date:

4 December 2009

Parties:

- (i) The Consultancy Agreement (Digichina) was made between the Company, Digichina (wholly owned by Mr. Tao Yu Zhen) and Mr. Tao Yu Zhen as Digichina's guarantor.
- (ii) The Consultancy Agreement (Paramount) was made between the Company, Paramount (wholly owned by Mr. Kwok Wai Tak) and Mr. Kwok Wai Tak as Paramount's guarantor.

The Consultants are principally engaged in the provision of business consultancy services. To the best of the Directors' knowledge, information and belief having made all reasonable enquiry, the Consultants and their respective ultimate beneficial owners are third parties independent of the Company and its connected persons.

Consultancy services to be provided:

The Consultants shall provide to the Company business development, strategies and advisory services. In particular, Digichina shall seek suitable business projects for the development or diversification of the business of the Company while Paramount shall seek suitable business partners/investors from China for the Company for fund raising projects.

Term of the Consultancy Agreements:

Both Consultancy Agreements will come into force from the date of issue of the Warrants and shall continue for a period of 24 months from such issue date.

Any of the Consultants shall be entitled to terminate the Consultancy Agreement to which it is a party by giving not less than one month's written notice to the Company if the Consultant has successfully (i) introduced suitable business projects for the development or diversification of the business of the Company; or (ii) sought suitable business partners/investors and raised funds for the Company (as the case may be) to the satisfaction of the Company. After termination of the Consultancy Agreement, the Warrants granted to the relevant Consultant pursuant to the Consultancy Agreement shall continue to have full force and effect.

Conditions precedent and date of issue of the Warrants:

Under each of the Consultancy Agreements, the Company agreed to issue unlisted Warrants in the amount of HK\$43,125,000 to each of Digichina and Paramount respectively. The conditions precedent to the issue of the Warrants are summarised below:–

- (a) (if required) the Stock Exchange having approved the issue of the Warrants;
- (b) the Listing Committee of the Stock Exchange having granted listing of, and permission to deal in, the Warrant Shares; and
- (c) all third party consents, approvals and waivers required for or in connection with the completion of the transactions contemplated under the Consultancy Agreements having been obtained.

Under each of the Consultancy Agreements, if any of such conditions precedent is not satisfied on or before 31 January 2010 (or such later date as may be agreed between the Company and the relevant Consultant), the Company's obligations to grant the Warrants and the relevant Consultant's obligations to provide the consultancy services under the relevant Consultancy Agreement shall lapse and be of no further effect and neither party shall have any claims against the others in respect thereof save for antecedent breaches.

On the date of fulfillment of all the conditions precedent, the Company shall issue Warrants in the relevant amounts to the Consultants.

B. TERMS AND CONDITIONS OF THE WARRANTS

Exercise period:

From 1 April 2010 to the day falling 24 months after the date of issue of the Warrants (both dates inclusive).

Exercise Price:

The Exercise Price is HK\$1.725 per Warrant Share which represents:

- (i) a discount of approximately 15.02% to the closing price of HK\$2.03 per Share as quoted on the Stock Exchange on the Last Trading Date;
- (ii) a discount of approximately 17.07% to the average closing price per Share (on an ex-special and ex-final dividends basis) of approximately HK\$2.08 for the last 5 trading days up to and including the Last Trading Date; and
- (iii) a discount of approximately 43.26% to the audited consolidated net assets value attributable to equity holders of the Company per Share of approximately HK\$3.04 as at 30 June 2009 (as calculated by the equity attributable to equity holders of the Company of approximately

HK\$1,045.9 million as at 30 June 2009, less the special dividend payable to the Shareholders of approximately HK\$93.8 million and the number of outstanding Shares of 312,830,334 as at 30 June 2009, as extracted from the Company's 2008/09 annual report).

The Exercise Price is determined after arm's length negotiations between the Company and the respective Consultants with reference to the prevailing Share price and the services to be rendered by the Consultants under the Consultancy Agreements.

The Warrant Shares:

Warrants in the amount of HK\$43,125,000 will be issued to Digichina under the Consultancy Agreement (Digichina) to subscribe up to 25,000,000 Shares at the initial Exercise Price of HK\$1.725 per Share (subject to adjustment). Warrants in the same amount of HK\$43,125,000 will also be issued under the Consultancy Agreement (Paramount) to Paramount, which will also be entitled to subscribe up to 25,000,000 Shares at the initial Exercise Price of HK\$1.725 per Share (subject to adjustment). The aggregate amount of Warrants to be issued by the Company to both Consultants is HK\$86,250,000.

The Warrant Shares, when fully paid, will rank pari passu in all respects with the Shares then in issue. The holders of the Warrants will not be entitled to the final dividend and special dividend to be paid by the Company for the year ended 30 June 2009.

The Warrant Shares to be issued upon exercise of the Warrants will be issued under the General Mandate which has not been used previously. Assuming the Warrants are fully exercised, a total of 50,000,000 new Warrant Shares will be issued.

Under each of the Consultancy Agreements, the Consultant undertook to the Company that it would not exercise any of the Warrants beyond the amount of HK\$25,875,000 (total amount for both Consultants: HK\$51,750,000) until and unless the Gold Mine Acquisition Agreement has been duly completed. If the Gold Mine Acquisition Agreement is not duly completed, the relevant Consultant's rights to exercise the Warrants beyond the amount of HK\$25,875,000 shall lapse.

Application will be made by the Company to the Stock Exchange for the listing of, and permission to deal in, the Warrant Shares.

Other material terms of the Warrants:

The Warrants shall be transferable in integral multiples of HK\$1,000,000 subject to the approval of the Board and (if necessary) the Stock Exchange and compliance with all applicable laws and regulations.

C. SHAREHOLDING STRUCTURE

The following table shows the impact of the issue and exercise of the Warrants (assuming that the Warrants are fully exercised at the initial Exercise Price of HK\$1.725 per Share) on the shareholdings of the Company.

	As at the date of this announcement		After the issue and full exercise of the Warrants	
Tamar Investments	158,816,303	50.768%	158,816,303	43.772%
Chu Wai Kok, a Director	8,000	0.003%	8,000	0.002%
Chan Ping Kuen, a Director	20,000	0.006%	20,000	0.006%
Digichina	–	0.000%	25,000,000	6.890%
Paramount	–	0.000%	25,000,000	6.890%
Other Shareholders	153,986,031	49.223%	153,986,031	42.440%
Total	<u>312,830,334</u>	<u>100%</u>	<u>362,830,334</u>	<u>100%</u>

As noted from the above shareholding table, the shareholding of Tamar Investments in the Company will drop below 50% if the Warrants are fully exercised at the initial Exercise Price of HK\$1.725 per Share. It may then be obliged to make a mandatory general offer for all the Shares if its shareholding in the Company is subsequently increased by more than 2% in a period of 12 months. Tamar Investments will comply with the Code on Takeovers and Mergers in such event.

D. REASONS AND BENEFITS OF THE TRANSACTION

The Group is currently principally engaged in (i) design, manufacturing, marketing and trading of fine jewellery and diamonds; and (ii) property investment.

The management of the Company believes that with the strong business connection of Mr. Tao Yu Zhen in the PRC and the considerable fund raising experience of Mr. Kwok Wai Tak, the Company would be able to identify suitable business projects and raise funds for further development or diversification of the business of the Group. Based on the foregoing, the Directors (including the independent non-executive Directors) considered the Company entering into the Consultancy Agreements and the issue of the Warrants to be in the interests of the Company and the Shareholders as a whole and the terms of the Warrants (including the Exercise Price) are fair and reasonable.

Full exercise of the Warrants at the initial Exercise Price of HK\$1.725 per Warrant Share will raise HK\$86,250,000 for the Company. The net proceeds of approximately HK\$86,150,000 will be utilised by the Group for future investment should opportunities arise and the remaining will be applied as general working capital of the Group. Save for the proposed issue of the Warrants (and the Warrant Shares upon exercise thereof) and the proposed issue of the new securities as set out in the Announcement, the Company did not have any fund raising activities during the past 12 months.

E. DEFINITIONS

In this announcement, the following expressions shall have the meanings set out below unless the context requires otherwise:

“Announcement”	announcement of the Company dated 30 November 2009 in respect of the Gold Mine Acquisition Agreement and the Share Subscription Agreement
“Company”	Continental Holdings Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Stock Exchange
“Consultancy Agreement (Digichina)”	the service agreement dated 4 December 2009 between the Company, Digichina and Mr. Tao Yu Zhen as guarantor to guarantee due and punctual performance of the obligations of Digichina under the said agreement
“Consultancy Agreement (Paramount)”	the service agreement dated 4 December 2009 between the Company, Paramount and Mr. Kwok Wai Tak as guarantor to guarantee due and punctual performance of the obligations of Paramount under the said agreement
“Consultants”	Digichina and Paramount
“Digichina”	Digichina Trading Limited, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Tao Yu Zhen
“Director(s)”	director(s) of the Company
“Dr. Chan”	Dr. Chan Sing Chuk, Charles, BBS, JP, Chairman and Director
“Exercise Price”	HK\$1.725 per Share (subject to adjustment for, among other things, share consolidation, share sub-division, capitalization of profits or reserves, capital distribution, rights issue, grant of options, warrants or other rights to subscribe for or purchase any Shares)
“General Mandate”	the general mandate granted to the Directors pursuant to an ordinary resolution passed at the Company’s annual general meeting held on 1 December 2009 to issue and allot up to 62,566,066 new Shares, representing approximately 20% of the aggregate nominal amount of the share capital of the Company in issue on the date of the meeting

“Gold Mine Acquisition Agreement”	the sale and purchase agreement entered into between the Company, Benefit Well Investments Limited and Dr. Chan in respect of the acquisition of the entire issued share capital and shareholder’s loan of Big Bonus Limited on 20 November 2009 and supplemented by a supplemental agreement dated 30 November 2009 between the same parties
“Group”	the Company and its subsidiaries
“Last Trading Date”	4 December 2009, being the last trading date of the Shares before the issue of this announcement
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“Paramount”	Paramount Ability Corporation, a company incorporated in the British Virgin Islands with limited liability and wholly owned by Mr. Kwok Wai Tak
“PRC”	the People’s Republic of China
“Share Subscriber”	All Max Holdings Limited, a company incorporated in Hong Kong with limited liability
“Share Subscription Agreement”	the subscription agreement entered into between the Company and the Share Subscriber on 23 November 2009 in respect of the issue of 21,764,705 new Shares at a subscription price of HK\$1.7 per Share
“Share(s)”	share(s) in the Company of HK\$0.1 each
“Shareholders”	holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Tamar Investments”	Tamar Investments Group Limited, a company incorporated in the British Virgin Islands with limited liability and is wholly owned by Dr. Chan and Ms. Cheng Siu Yin, Shirley, a Director
“Warrant Shares”	the new Shares to be issued and allotted upon exercise of the subscription rights attached to the Warrants

“Warrants”

the unlisted warrants with subscription rights in units of initial subscription price HK\$1.725 each in the aggregate amount of HK\$86,250,000 to be issued by the Company pursuant to the Consultancy Agreements, which entitle the holder(s) thereof to subscribe for new Shares at the Exercise Price at any time during a period from 1 April 2010 to the day falling 24 months after the date of issue of the Warrants

By Order of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 4 December 2009

As at the date of this announcement, Dr. Chan, Ms. Cheng Siu Yin, Shirley, Ms. Chan Wai Kei, Vicki and Mr. Chan Wai Lap, Victor are executive Directors, Mr. Chu Wai Kok is a non-executive Director, Mr. Wong Kai Cheong, Mr. Yu Shiu Tin, Paul BBS, MBE, JP, Mr. Chan Ping Kuen, Derek and Mr. Sze, Irons are independent non-executive Directors.

In the case of a conflict between the English text of this announcement and its Chinese translation, the English text will prevail.