

The board (the "Board") of directors (the "Directors") of Continental Holdings Limited (the "Company") submit their report together with the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31st December, 2000.

MANAGEMENT COMMENTARY

Business review & prospects

During the six months ended 31st December, 2000, the Group achieved a turnover of HK\$466,904,000 and a profit attributable to shareholders of HK\$26,669,000 compared to the turnover of HK\$427,696,000 and the profit of HK\$28,369,000 in the same six months period for the previous year. This represents an increase of approximately 9% in turnover over that achieved in the same six months period for the previous year.

The Group was able to achieve a moderate growth in turnover. On the other hand, the Group has spent more resources in product development and in equipping the production facilities as well as marketing support works and as a result, the overall profitability dropped slightly.

In last Christmas, sales in respective markets was reported to be slightly below expectations. The management believes that the Group's sales performance will not be affected if the economies of respective markets remain stable.

The Group's two diamond cutting factories located in Panyu and Quzhou of the PRC recorded encouraging results during the six months under review. Subsequent to the balance sheet date, the Group has taken strategic move by acquiring the controlling interest of the Quzhou diamond cutting factory. This will not only enhance the net tangible assets and recurring income for the Group as a whole, but will also increase the Group's exposure in the PRC market.

The foundation work for the Group's investment in a re-development project in Tin Hau Temple Road has just been completed. The construction work for this project is expected to be completed in the mid 2002.

The Group's investment in an agri-waste engineering board production plant in Jiangmen is ready for mass production. Wilber Investments Limited has also set up a US sales office to launch full scale marketing work in the US market.

Looking forward, the Group will pursue the best interest of its shareholders via aggressive marketing activities and cost-effective management.

MANAGEMENT COMMENTARY (continued)

Interim dividend

At a meeting of the Board of Directors held on 9th March, 2001, the Directors resolved to pay an interim dividend for the six months ended 31st December, 2000 of HK\$0.01 per share (1999: HK\$0.01), totalling HK\$2,762,000 (1999: HK\$2,552,000), payable in cash on Friday, 6th April, 2001.

The register of members of the Company will be closed from Wednesday, 28th March, 2001 to Friday, 30th March, 2001, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to qualify for the above dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Central Registration Hong Kong Limited, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Tuesday, 27th March, 2001.

Liquidity and financial resources

In line with the Group's prudent financial management, the Group has been able to maintain a healthy balance sheet. As at 31st December, 2000, the Group has a debt equity ratio of 0.04, total deposits and cash was HK\$115,813,000 exceeding loans and overdrafts of HK\$23,707,000.

Number of employees, remuneration policies and share option schemes

As at 31st December, 2000, the Group employed a total of approximately 1,700 employees, the majority of whom are employed in the PRC. The Group remunerates its employees largely based on industry practice. The share option scheme adopted by the Company on 10th October, 1988 expired in 2000 and the Company has not adopted any new share option scheme.

Exposure to fluctuations in exchange rates and related hedges

The Group's borrowings are primarily denominated in Hong Kong dollars. The Group has no significant exposure to foreign exchange fluctuations.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the six months ended 31st December, 2000. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the six months ended 31st December, 2000.

MANAGEMENT COMMENTARY (continued)

Directors' interests in equity or debt securities

As 31st December, 2000, the interests of the Directors and chief executive of the Company in the issued shares of the Company and its associated corporations (within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance")) as recorded in the register maintained by the Company under section 29 of the SDI Ordinance or as notified to the Company were as follows:

Name of directors	Number of shares	
	Personal interest	Family and Other interest
Chan Sing Chuk, Charles	—	123,786,000 (Note)
Cheng Siu Yin, Shirley	—	123,786,000 (Note)
Choy Jee Hong, Anthony	1,000,000	—
Chu Wai Kok	8,000	—

Note: Mr. Chan Sing Chuk, Charles and Madam Cheng Siu Yin, Shirley are beneficiaries of several discretionary trusts, which through Tamar Investments Limited, Fortune Gold Limited, Magic Hand Limited, and Climb High Company Limited were the beneficial owners of 67,432,000 shares, 37,754,000 shares, 9,450,000 shares and 9,150,000 shares all of HK\$0.10 each in the share capital of the Company respectively as at 31st December, 2000.

Substantial shareholders

As at 31st December, 2000, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance shows that the Company had not been notified of any substantial shareholders' interests, being 10% or more of the Company's issued share capital, other than those of the Directors and chief executive as disclosed above.

Compliance with the Code of Best Practice of the Listing Rules

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of The Stock Exchange of Hong Kong Limited at any time during the six months ended 31st December, 2000.

Audit committee

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31st December, 2000.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 9th March, 2001