



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

INTERIM REPORT 2003

二 零 零 三 年 中 期 報 告

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The board (the “Board”) of directors (the “Directors”) of Continental Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December, 2002 and together with the comparative figures for the corresponding period in 2001.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Unaudited	
		Six months ended	
		31st December	
		2002	2001
	<i>Notes</i>	HK\$'000	<i>HK\$'000</i>
Turnover	3	714,021	501,306
Cost of sales		(666,576)	(455,522)
Gross profit		47,445	45,784
Other revenue		360	360
Distribution costs		(9,921)	(8,549)
Administrative expenses		(22,144)	(18,145)
Other operating income/(expenses)		1,114	(6,168)
Operating profit	4	16,854	13,282
Finance costs		(436)	(472)
Share of profits less losses of associated companies		900	286
Profit before taxation		17,318	13,096
Taxation	5	(3,378)	(1,635)
Profit after taxation		13,940	11,461
Minority interests		(722)	(98)
Profit attributable to shareholders		<u>13,218</u>	<u>11,363</u>
Interim dividends	6	<u>2,798</u>	<u>2,798</u>
Earnings per share	7	<u>HK4.7 cents</u>	<u>HK4.1 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2002 HK\$'000	Audited 30th June 2002 HK\$'000
NON-CURRENT ASSETS			
Fixed assets		55,391	58,857
Goodwill		—	—
Investments in associates		9,363	2,104
Investment securities		14,660	14,660
Long term receivables		25,641	31,549
Property under development		115,993	110,807
		221,048	217,977
CURRENT ASSETS			
Inventories		179,149	221,052
Trade receivables	8	145,671	104,709
Prepayments, deposits and other receivables		35,995	16,962
Current portion of long term receivables		3,644	5,427
Other investments		33,706	34,159
Due from an associate		8	980
Tax recoverable		1,992	1,839
Cash and bank balances		194,713	175,968
		594,878	561,096
CURRENT LIABILITIES			
Trade payables	9	(153,704)	(162,126)
Accruals and other payables		(53,084)	(33,838)
Loans from minority shareholders		—	(1,480)
Tax payable		(3,506)	(1,789)
Due to associates		(1,060)	(323)
Interest-bearing bank loans	10	(30,864)	(17,447)
		(242,218)	(217,003)
NET CURRENT ASSETS		352,660	344,093
TOTAL ASSETS LESS CURRENT LIABILITIES		573,708	562,070
NON-CURRENT LIABILITIES			
Loans from minority shareholders	11	(1,125)	(1,125)
MINORITY INTERESTS		(5,296)	(6,744)
		567,287	554,201
CAPITAL AND RESERVES			
Issued capital	12	27,980	27,980
Reserves		536,509	526,221
Proposed interim/final dividend		2,798	—
		567,287	554,201

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	31st December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	22,830	34,788
Net cash outflow from investing activities	(11,242)	(15,380)
Net cash (outflow)/inflow from financing activities	(1,521)	519
Increase in cash and cash equivalents	10,067	19,927
Cash and cash equivalents at 1st July	163,521	140,490
Effect of foreign exchange rate changes	261	(357)
Cash and cash equivalents at 31st December	<u>173,849</u>	<u>160,060</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	194,713	178,545
Bank loans and overdrafts	(20,864)	(18,485)
	<u>173,849</u>	<u>160,060</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share Capital <i>Unaudited</i> <i>HK\$'000</i>	Share premium <i>Unaudited</i> <i>HK\$'000</i>	Non- distributable reserve <i>Unaudited</i> <i>HK\$'000</i>	Investment properties revaluation reserve <i>Unaudited</i> <i>HK\$'000</i>	Exchange fluctuation reserve <i>Unaudited</i> <i>HK\$'000</i>	Retained profits <i>Unaudited</i> <i>HK\$'000</i>	Dividends <i>Unaudited</i> <i>HK\$'000</i>	Total <i>Unaudited</i> <i>HK\$'000</i>
At 1st July, 2002	27,980	158,373	273,606	2,119	1,682	90,441	–	554,201
Exchange differences on translation of the accounts of foreign subsidiaries and associates	–	–	–	–	(132)	–	–	(132)
Net gains and losses not recognised in the accounts	–	–	–	–	(132)	–	–	(132)
Net profit for the period	–	–	–	–	–	13,218	–	13,218
Interim dividend, proposed	–	–	–	–	–	(2,798)	2,798	–
At 31st December, 2002	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>2,119</u>	<u>1,550</u>	<u>100,861</u>	<u>2,798</u>	<u>567,287</u>
Reserves retained by/ (losses accumulated in):								
Company and subsidiaries	27,980	158,373	273,606	2,119	1,438	104,577	2,798	570,891
Associates	–	–	–	–	112	(3,716)	–	(3,604)
At 31st December, 2002	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>2,119</u>	<u>1,550</u>	<u>100,861</u>	<u>2,798</u>	<u>567,287</u>
At 1st July, 2001 as restated	27,980	158,373	273,606	2,169	2,006	87,390	4,197	555,721
2000/2001 final dividend paid	–	–	–	–	–	–	(4,197)	(4,197)
Exchange differences on translation of the accounts of foreign subsidiaries and associates	–	–	–	–	(427)	–	–	(427)
Net gains and losses not recognised in the accounts	–	–	–	–	(427)	–	–	(427)
Net profit for the period	–	–	–	–	–	11,363	–	11,363
Interim dividend proposed	–	–	–	–	–	(2,798)	2,798	–
At 31st December, 2001	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>2,169</u>	<u>1,579</u>	<u>95,955</u>	<u>2,798</u>	<u>562,460</u>
Reserves retained by/ (losses accumulated in):								
Company and subsidiaries	27,980	158,373	273,606	2,169	1,486	99,380	2,798	565,792
Associates	–	–	–	–	93	(3,425)	–	(3,332)
At 31st December, 2001	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>2,169</u>	<u>1,579</u>	<u>95,955</u>	<u>2,798</u>	<u>562,460</u>

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Accounting policies

These unaudited condensed consolidated interim accounts (“interim accounts”) have been prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 25, “Interim Financial Reporting”, issued by the Hong Kong Society of Accountants, and Appendix 16 of the Listing Rules of The Stock Exchange of Hong Kong Limited, and should be read in conjunction with the 2002 annual accounts.

The condensed interim accounts have been prepared under the historical cost convention as modified for the revaluation of the investment properties and investments in securities.

The accounting policies and methods of computation used in the preparation of these interim accounts are consistent with those used in the annual accounts for the year ended 30th June, 2002, except that the following new or revised SSAPs have been adopted for the first time in the preparation of the current period’s unaudited condensed consolidated interim accounts:

SSAP 1 (Revised)	:	“Presentation of financial statements”
SSAP 11 (Revised)	:	“Foreign currency translation”
SSAP 15 (Revised)	:	“Cash flow statements”
SSAP 25 (Revised)	:	“Interim financial reporting”
SSAP 34	:	“Employee benefits”

As a result of adopting these new and revised SSAPs, a condensed consolidated statement of changes in equity is now included in the interim accounts and the condensed consolidated cash flow statement and the segment information are revised in accordance with the new requirements of these new and revised SSAPs. Comparative amounts for prior period have been restated in order to achieve a consistent presentation.

Except as set out below, the adoption of the above SSAPs does not have a material impact on the Group’s results and financial position in the current and prior periods.

SSAP11 (Revised) has eliminated the choice of translating the profit and loss account of overseas subsidiaries and associates at the closing rate of the period. They are now required to be translated at an average rate. Accordingly, on consolidation, the assets and liabilities of the Group’s overseas subsidiaries are translated at the exchange rate prevailing on the balance sheet date. Income and expenses items of overseas subsidiaries and associates are translated at the average exchange rate for the period.

Under SSAP 15 (Revised), cash flows are now classified under three headings including operating, investing and financing activities rather than five headings as previously reported. In addition, cashflow from overseas subsidiaries arising during the period are now translated to Hong Kong dollars at exchange rate at the date of transaction or at an approximation thereto, whereas previously they were translated at the exchange rate at the balance sheet date.

2. Segment Information

According to SSAP 26, segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

The Group’s operating businesses are structured and managed separately, according to the nature of their operations and the products and services they provide. Each of the Group’s business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of other business segments. Summary details of the business segments are as follows:

- (a) designing, manufacturing, marketing and trading of fine jewellery and diamonds; and
- (b) property investment and development.

No business segment information is presented as over 90% of the Group’s revenue and results are derived from designing, manufacturing and trading of fine jewellery and diamonds.

3. Turnover

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, interest income and dividend income from listed investments.

An analysis of turnover is as follows:

	Unaudited Six months ended 31st December	
	2002	2001
	HK\$'000	HK\$'000
Sale of goods	710,799	495,890
Interest income	3,180	5,291
Dividend income from listed investments	42	125
	<u>714,021</u>	<u>501,306</u>

4. Operating profit

Operating profit is stated after charging the following:

	Unaudited Six months ended 31st December	
	2002	2001
	HK\$'000	HK\$'000
Cost of inventories sold	666,576	455,522
Realized and unrealized losses on other investments	254	1,552
Depreciation of fixed assets	3,898	1,920
Amortization of goodwill	899	–
Operating leases – land and buildings	2,250	2,236
Provision for bad and doubtful debts	3,194	6,032
Pre-operating expenditure written off	–	2,219
	<u>–</u>	<u>2,219</u>

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2001: 16%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	Unaudited Six months ended 31st December	
	2002	2001
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current	1,742	1,987
– over provision in prior year	–	(409)
	<u>1,742</u>	<u>1,578</u>
Overseas taxation	1,500	57
Share of taxation attributable to an associate	136	–
	<u>3,378</u>	<u>1,635</u>

6. Dividends

	Six months ended 31st December	
	2002	2001
	<i>HK\$'000</i>	<i>HK\$'000</i>
2002 Final dividend – Nil (2001 final paid: HK\$0.015) per share	–	4,197
2003 Interim, proposed of HK\$0.01 (2002: HK\$0.01) per ordinary share	<u>2,798</u>	<u>2,798</u>
	<u>2,798</u>	<u>6,995</u>

7. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$13,218,000 (2001: HK\$11,363,000) and the weighted average number of 279,800,031 (2001: 279,800,031) ordinary shares in issue during the year.

No fully diluted earnings per share is shown as the Company has no potential dilutive ordinary shares at 31st December, 2002 and 2001.

8. Trade receivables

The ageing analysis of trade receivables, net of provision, as at the balance sheet 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 31st December, 2002	<u>26,236</u>	<u>45,430</u>	<u>55,516</u>	<u>18,489</u>	<u>145,671</u>
Audited balance at 30th June, 2002	<u>36,011</u>	<u>22,544</u>	<u>20,908</u>	<u>25,246</u>	<u>104,709</u>

9. Trade payables

The ageing analysis of the trade payables at the balance sheet 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 31st December, 2002	<u>80,765</u>	<u>8,746</u>	<u>18,786</u>	<u>45,407</u>	<u>153,704</u>
Audited balance at 30th June, 2002	<u>113,851</u>	<u>9,800</u>	<u>12,335</u>	<u>26,140</u>	<u>162,126</u>

10. Interest-bearing bank loans

At 31st December, 2002, the Group's bank loans and overdraft as follows:

	Unaudited 31st December 2002 <i>HK\$'000</i>	Audited 30th June 2002 <i>HK\$'000</i>
Bank overdrafts, secured and unsecured	<u>20,864</u>	7,406
Secured bank loans wholly repayable within one year	<u>10,000</u>	10,041
Secured (<i>notes (a) and (b)</i>)	<u>30,864</u>	<u>17,447</u>

- (a) These bank loans and part of the overdrafts are secured by first legal charges over investment properties, certain leasehold land and buildings and the property under development of the Group and share mortgage of a subsidiary
- (b) The Company has provided corporate guarantees of HK\$209,000,000 (30th June, 2002: HK\$184,444,000) for general banking facilities granted to certain subsidiaries.

11. Loans from minority shareholders

	Unaudited 31st December 2002 <i>HK\$'000</i>	Audited 30th June 2002 <i>HK\$'000</i>
Loans from minority shareholders	<u>1,125</u>	<u>1,125</u>

The loans from minority shareholders are unsecured, interest-free and not repayable within twelve months from the balance sheet date.

12. Share Capital

	Unaudited 31st December 2002 <i>HK\$'000</i>	Audited 30th June 2002 <i>HK\$'000</i>
Authorised: 3,500,000,000 ordinary shares of HK\$0.10 each	<u>350,000</u>	<u>350,000</u>
Issued and fully paid: 279,800,031 ordinary shares of HK\$0.10 each	<u>27,980</u>	<u>27,980</u>

13. Commitments

Commitments under operating leases

At 31st December, 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 31st December 2002 <i>HK\$'000</i>	Audited 30th June 2002 <i>HK\$'000</i>
Not later than one year	2,767	4,536
Later than one year but not later than five years	<u>675</u>	<u>3,469</u>
	<u>3,442</u>	<u>8,005</u>

14. Related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

	Unaudited Six months ended 31st December 2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>
Subcontracting fees paid and payable to associates	<u>8,248</u>	<u>6,180</u>

BUSINESS REVIEWS AND PROSPECTS

During the six months ended 31st December, 2002, the Group achieved a turnover of HK\$714,021,000 and a profit attributable to shareholders of HK\$13,218,000 compared to the turnover of HK\$501,306,000 and a profit attributable to shareholders of HK\$11,363,000 in the same six months period for the previous year. This represents an increase of approximately 42% in turnover and 16% in profit attributable to shareholders over that achieved in the same six months period for the previous year.

In 2002, the US jewellery market was a tough year, mainly due to the prolonged global economic recovery and concerns over the US-Iraq war situation. With the escalating fuel price, as well as the uncertain outcome of the war, consumer confidence in the US will likely remain weak.

Despite a relatively slow economy, the Group was able to achieve a respectable growth in sales over the past 6 months. The management has been consistently promoting new business opportunities, enhancing sales and marketing functions, and improving efficiency in production. Furthermore, by maintaining an effective administrative structure, the Group enables itself to better serve its customers amidst a highly competitive market environment. As a result, the Group has achieved slightly better performance over last year's results.

With much uncertainty, the Group continues to undertake a careful scrutiny of its business risks, such as implementing tight and adequate control in its inventory level and receivable collection. As shown in the Group's result, inventory level has reduced and liquidity remains at a high level. Bank borrowing has slightly increased for the property development project. Overall, the Group has a healthy and ample financial position.

The consumer spending in Hong Kong's retail market remains soft. The Group is continuously exploring other opportunities in the regional markets.

The Group's property development project is progressing according to schedule. The project is expected to complete in the third quarter of this year.

Looking ahead, the Group will maintain its stringent management control in achieving long-term profits for our shareholders. If the consumers regain their confidence in spending and the threat of war is lifted, the Group's business and profit will further stabilize.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.01 per share for the six months ended 31st December, 2002 (2001: HK\$0.01), totalling HK\$2,798,000 (2001: HK\$2,798,000), payable in cash on Thursday, 17th April, 2003.

The register of members of the Company will be closed from Wednesday, 9th April, 2003 to Friday, 11th April, 2003, 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, Computershare Hong Kong Investor Services Limited, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Tuesday, 8th April, 2003.

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, 2002, the Group has a low gearing ratio of 0.05, calculated on the basis of the Group's bank borrowings over shareholders' funds, total cash and bank balances was HK\$194,713,000 (30th June, 2002: HK\$175,968,000) exceeding bank loans and overdrafts of HK\$30,864,000 (30th June, 2002: HK\$17,447,000).

PLEDGE OF ASSETS

As at 31st December, 2002, certain leasehold land and buildings and property under development of the Group and the share of a subsidiary with an aggregate net book value of HK\$131,193,000 (30th June, 2002: HK\$128,819,000) have been pledged to bank to secure general banking credit facilities granted to the Group. As at 31st December, 2002, the Group had no significant contingent liabilities.

CAPITAL STRUCTURE

There was no change to the Group's capital structure during the six month ended 31st December, 2002.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES AND SHARE OPTION SCHEMES

As at 31st December, 2002, the Group employed a total of approximately 2,300 employees, the majority of whom are employed in the PRC. The Group remunerates its employees largely based on industry practice. No share option scheme was adopted during the six months ended 31st December, 2002.

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 period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As 31st December, 2002, 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 (<i>Note</i>)
Cheng Siu Yin, Shirley	–	123,786,000 (<i>Note</i>)
Choy Jee Hong, Anthony	–	–
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, 2002.

SUBSTANTIAL SHAREHOLDERS

As at 31st December, 2002, 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.

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, 2002.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim accounts for the six months ended 31st December, 2002. The unaudited interim accounts have been approved by the Audit Committee.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 24th March, 2003