



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

INTERIM REPORT 2004

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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 2003 together with the comparative figures for the corresponding period in 2002.

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	<i>Notes</i>	Unaudited	
		Six months ended	
		31st December	
		2003	2002
		HK\$'000	<i>HK\$'000</i>
Turnover	3	660,479	714,021
Cost of sales		(609,476)	(666,576)
Gross profit		51,003	47,445
Other revenue		911	360
Distribution costs		(12,386)	(9,921)
Administrative expenses		(25,097)	(22,144)
Other operating income		1,565	1,114
Operating profit	4	15,996	16,854
Finance costs		(752)	(436)
Share of profits less losses of associated companies		1,161	900
Profit before taxation		16,405	17,318
Taxation	5	(2,986)	(3,378)
Profit after taxation		13,419	13,940
Minority interests		272	(722)
Profit attributable to shareholders		13,691	13,218
Interim dividends	6	2,798	2,798
Earnings per share	7	HK4.9 cents	HK4.7 cents

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited 31st December 2003 <i>HK\$'000</i>	Audited 30th June 2003 <i>HK\$'000</i>
	<i>Notes</i>		
NON-CURRENT ASSETS			
Fixed assets		56,002	53,148
Investment properties	8	109,669	4,580
Investments in associates		9,021	8,833
Investment securities		14,660	14,660
Long-term receivables		24,499	25,804
Property under development		144,186	128,647
Prepayment for a parcel of land		1,236	1,236
		<hr/> 359,273	<hr/> 236,908
CURRENT ASSETS			
Inventories		240,402	222,219
Trade receivables	9	142,526	102,065
Prepayments, deposits and other receivables		26,734	26,054
Current portion of long term receivables		10,028	10,028
Other investments		44,463	51,403
Due from an associate		272	520
Tax recoverable		–	905
Cash and bank balances		121,138	157,730
		<hr/> 585,563	<hr/> 570,924
CURRENT LIABILITIES			
Trade payables	10	(219,154)	(173,893)
Accruals and other payables		(46,317)	(38,347)
Tax payable		(6,020)	(4,887)
Due to an associate		(1,417)	(1,494)
Secured bank loan and overdrafts	11	(29,962)	(22,257)
		<hr/> (302,870)	<hr/> (240,878)
NET CURRENT ASSETS			
		<hr/> 282,693	<hr/> 330,046
TOTAL ASSETS LESS CURRENT LIABILITIES			
		641,966	566,954
NON-CURRENT LIABILITIES			
Loans from minority shareholders		(1,125)	(1,125)
Secured bank loan		(64,166)	–
	12	<hr/> (65,291)	<hr/> (1,125)
MINORITY INTERESTS			
		<hr/> (5,337)	<hr/> (5,609)
		<hr/> 571,338	<hr/> 560,220
CAPITAL AND RESERVES			
Issued capital	13	27,980	27,980
Reserves		540,560	529,442
Proposed interim/final dividend		2,798	2,798
		<hr/> 571,338	<hr/> 560,220

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	31st December	
	2003	2002
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash inflow from operating activities	17,002	22,830
Net cash outflow from investing activities	(125,893)	(11,242)
Net cash inflow/(outflow) from financing activities	69,551	(1,521)
(Decrease)/increase in cash and cash equivalents	(39,340)	10,067
Cash and cash equivalents at 1st July	135,473	163,521
Effect of foreign exchange rate changes	428	261
Cash and cash equivalents at 31st December	<u>96,561</u>	<u>173,849</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	121,138	194,713
Overdrafts	(24,577)	(20,864)
	<u>96,561</u>	<u>173,849</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital Unaudited HK\$'000	Share premium Unaudited HK\$'000	Non- distributable reserve Unaudited HK\$'000	Investment properties revaluation reserve Unaudited HK\$'000	Exchange fluctuation reserve Unaudited HK\$'000	Retained profits Unaudited HK\$'000	Dividends Unaudited HK\$'000	Total Unaudited HK\$'000
At 1st July 2003	27,980	158,373	273,606	2,149	331	94,983	2,798	560,220
Exchange differences on translation of the accounts of foreign subsidiaries and associates	-	-	-	-	225	-	-	225
Net gains and losses not recognised in the accounts	-	-	-	-	225	-	-	225
Net profit for the period	-	-	-	-	-	13,691	-	13,691
Final 2003 dividend	-	-	-	-	-	-	(2,798)	(2,798)
Interim dividend, declared	-	-	-	-	-	(2,798)	2,798	-
At 31st December 2003	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>2,149</u>	<u>556</u>	<u>105,876</u>	<u>2,798</u>	<u>571,338</u>
Reserves retained by/(losses accumulated in):								
Company and subsidiaries	27,980	158,373	273,606	2,149	444	107,752	2,798	573,102
Associates	-	-	-	-	112	(1,876)	-	(1,764)
At 31st December 2003	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>2,149</u>	<u>556</u>	<u>105,876</u>	<u>2,798</u>	<u>571,338</u>
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, declared	-	-	-	-	-	(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>

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 2003 annual accounts.

The 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, 2003, except as described below.

In the current period, the Group adopted SSAP 12 (Revised) “Income Taxes”. The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognised in respect of all temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively.

In accordance with SSAP12 (Revised) “Income Taxes”, a general revision was conducted on the Group’s deferred taxation. The Group recognised deferred tax asset of approximately HK\$1,494,000 and deferred tax liabilities of approximately HK\$266,000 which was mainly due to the differences between the carrying amounts and tax bases of the fixed asset depreciation and provision for doubtful debt.

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, marketing 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	
	2003 HK\$'000	2002 HK\$'000
Sale of goods	657,546	710,799
Interest income	2,711	3,180
Dividend income from listed investments	222	42
	<u>660,479</u>	<u>714,021</u>

4. Operating profit

Operating profit is stated after charging/(crediting):

	Unaudited Six months ended 31st December	
	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold	609,476	666,576
Realised and unrealised (gains)/losses on other investments	(2,335)	254
Depreciation of fixed assets	3,716	3,898
Amortization of goodwill	770	899
Operating leases – land and buildings	2,271	2,250
Provision for bad and doubtful debts	1,309	3,194
	<u>617,907</u>	<u>680,071</u>

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 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	
	2003 HK\$'000	2002 HK\$'000
Hong Kong profits tax		
– current	2,341	1,742
– over provision in prior year	–	–
	<u>2,341</u>	<u>1,742</u>
Overseas taxation	442	1,500
Share of taxation attributable to an associate	203	136
	<u>2,986</u>	<u>3,378</u>

6. Dividends

	Six months ended	
	31st December	
	2003	2002
	HK\$'000	HK\$'000
2003 final paid – HK\$0.01 (2002 final paid: Nil) per ordinary share	<u>2,798</u>	<u>–</u>
2004 Interim, declared on 18th March 2004, of HK\$0.01 (2003: HK\$0.01) per ordinary share	<u>2,798</u>	<u>2,798</u>

7. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to shareholders of HK\$13,691,000 (2002: HK\$13,218,000) and the weighted average number of 279,800,031 (2002: 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, 2003 and 2002.

8. Investment properties

On 17th October 2003, the Company through its subsidiary acquired a property known as Po Sang Bank Building in Mongkok at a consideration of approximately HK\$100 millions. Approximately 70% of the consideration is financed by secured bank loan at floating rate.

9. 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	31-60 days	61-90 days	Over 90 days	Total
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Unaudited Balance at 31st December 2003	<u>23,355</u>	<u>58,405</u>	<u>46,486</u>	<u>14,280</u>	<u>142,526</u>
Audited Balance at 30th June 2003	<u>66,551</u>	<u>17,582</u>	<u>5,914</u>	<u>12,018</u>	<u>102,065</u>

10. Trade payables

The ageing analysis of the trade payables at the balance sheet date is as follows:

	Current	31-60 days	61-90 days	Over 90 days	Total
	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>	<i>HK'000</i>
Unaudited Balance at 31st December 2003	<u>118,839</u>	<u>11,099</u>	<u>23,057</u>	<u>66,159</u>	<u>219,154</u>
Audited Balance at 30th June 2003	<u>152,814</u>	<u>7,405</u>	<u>12,006</u>	<u>1,668</u>	<u>173,893</u>

11. Secured bank loan and overdrafts

At 31st December 2003, the Group's bank loans and overdraft as follows:

	Unaudited 31st December 2003 HK\$'000	Audited 30th June 2003 HK\$'000
Bank overdrafts, secured	24,577	22,257
Secured bank loan repayable within one year	<u>5,385</u>	<u>–</u>
Secured (<i>notes (a) and (b)</i>)	<u>29,962</u>	<u>22,257</u>

- (a) These bank loan and 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\$299,000,000 (30th June 2002 : HK\$169,000,000) for general banking facilities granted to certain subsidiaries.

12. Non-current liabilities

	Unaudited 31st December 2003 HK\$'000	Audited 30th June 2003 HK\$'000
Loans from minority shareholders	1,125	1,125
Secured bank loan	<u>64,166</u>	<u>–</u>
	<u>65,291</u>	<u>1,125</u>

- (a) the loans from minority shareholders are unsecured, interest-free and not repayable within twelve months from the balance sheet date.
- (b) secured bank loan is at floating rate and secured by a legal charge of an investment property and corporate guarantee executed by the company.

13. Share capital

	Unaudited 31st December 2003 HK\$'000	Audited 30th June 2003 HK\$'000
<i>Authorised:</i> 3,500,000,000 ordinary shares of HK\$0.10 each	<u>350,000</u>	<u>350,000</u>
<i>Issued and fully paid:</i> 279,800,031 ordinary shares of HK\$0.10 each	<u>27,980</u>	<u>27,980</u>

14. Commitments

Commitments under operating leases

At 31st December 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Unaudited 31st December 2003 HK\$'000	Audited 30th June 2003 HK\$'000
Not later than one year	3,176	4,560
Later than one year but not later than five years	4,133	5,573
	<u>7,309</u>	<u>10,133</u>

15. Capital commitments

	Unaudited 31st December 2003 HK\$'000	Audited 30th June 2003 HK\$'000
Acquisition of fixed assets	11,602	9,166
Capital injection into subsidiaries in Mainland China	39,739	42,716
Property under development	8,678	24,023
	<u>60,019</u>	<u>75,905</u>

16. 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 2003 HK\$'000	2002 HK\$'000
Subcontracting fees paid and payable to associated companies	<u>5,893</u>	<u>8,248</u>

BUSINESS REVIEWS AND PROSPECTS

During the six months ended 31st December 2003, the Group achieved a turnover of HK\$660,479,000 and a profit of HK\$13,691,000 compared to the turnover of HK\$714,021,000 and a profit of HK\$13,218,000 in the same six months' period of the previous year. This represents a decrease of approximately 7.5% in turnover but a slightly increase of approximately 3.5% in profit.

Despite of a highly competitive market environment, the Group was able to maintain a satisfactory performance. The management has been continuing in focusing on new business opportunities, market development and product lines development.

The ISO 9001 program has been progressing smoothly. The management expects, after the completion of the program, that it would help to ensure the enhancement of product quality and to gain international recognition.

The establishment of new factory in Jiangmen is progressing and the management expects the factory will be in operation in the second quarter of the year. The production capacity will be increased accordingly.

The Occupation Permit for residential project in Tin Hau Temple Road was issued and the management is currently considering and reviewing all opportunities to the best interest of the Company. Further, the Group has acquired Po Sang Bank Building, No.33 Argyle Street and Nos. 611-617 Shanghai Street, Mongkok, Kowloon at a reasonable price to be added to the investment portfolio. Under the Company's investment strategy, the property, which is presently subject to existing tenancy will provide a decent yield of rental income. Moreover, the district where the property is located has high potential of developing into a major shopping area, which will be strategically essential and beneficial to the Group's retail operations in future.

The acquisition of Po Sang Bank Building, approximately 30% was funded by the Group's internal funds and 70% financed by bank loan at a prevailing low floating rate.

BUSINESS OUTLOOK

Although the market remains highly competitive, the management is confident in maintaining a modest growth.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.01 per share for the six months ended 31st December 2003 (2002: HK\$0.01), totalling HK\$2,798,000 (2002 : HK\$2,798,000), payable in cash on Tuesday, 20th April 2004.

The register of members of the Company will be closed from Tuesday, 6th April 2004 to Thursday, 8th April 2004, 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 Friday, 2nd April 2004.

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 2003, the Group has a gearing ratio of 0.16, calculated on the basis of the Group's bank borrowings over shareholders' funds, total cash and bank balances was HK\$121,138,000 (30th June 2003 : HK\$157,730,000) exceeding bank loans and overdrafts of HK\$94,128,000 (30th June 2003 : HK\$22,257,000) with interest charged at prevailing rates.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31st December 2003, the share of a subsidiary, property under development of the Group, investment properties and certain leasehold land and buildings of the Group with an aggregate net book value of HK\$264,040,000 (30th June 2003 : HK\$143,974,000) have been pledged to bank to secure general banking credit facilities granted to the Group.

The Inland Revenue Department ("IRD") of Hong Kong is in the process of reviewing the tax affairs of a subsidiary of the Company. The Directors are of the opinion that the Group's tax provision is fairly presented. The potential tax liabilities relating the aforementioned IRD's review are approximately HK\$6.6 million. As at 31st December 2003, in relation to the aforementioned IRD's review, the Group has purchased a tax reserve certificate amounting to approximately HK\$3.2 million.

CAPITAL STRUCTURE

There was no change to the Group's capital structure during the six months ended 31st December 2003.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES AND SHARE OPTION SCHEMES

As at 31st December 2003, 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 2003.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

With the exception of the a UK subsidiary, the sales and purchase transactions and the borrowings of the Group are primarily denominated in United States Dollars and/ or Hong Kong Dollars, the risk of foreign exchange fluctuations is minimal under the existing linked exchange rate system for Hong Kong Dollars against United States Dollars. During the six months ended 31st December 2003, the Group did not use any financial instrument for hedging purposes. As at 31st December 2003, there was no hedging instrument outstanding.

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 AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As 31st December 2003, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as set out below:

Name of directors	Number of ordinary shares of HK\$0.10 each in the Company		Percentage of the Company's issued share capital
	Personal interest	Family and other interest	
Chan Sing Chuk, Charles	–	123,786,000 <i>(Note)</i>	44.24%
Cheng Siu Yin, Shirley	–	123,786,000 <i>(Note)</i>	44.24%
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, beneficially owned 67,432,000 shares, 37,754,000 shares, 9,450,000 shares and 9,150,000 shares, respectively, all of HK\$0.10 each, in the share capital of the Company at 31st December 2003.

Except as disclosed above, at the balance sheet date none of the directors or their respective associates had any personal, family, corporate or other interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2003, no person, other than Mr. Chan Sing Chuk, Charles and Madam Cheng Siu Yin, Shirley, whose interests are set out in the section "Directors' interests and short positions in shares, underlying shares and debentures" above, had registered an interest in 5% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 336 of the SFO.

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 at any time during the six months ended 31st December 2003.

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 2003. The unaudited interim financial statements have been approved by the Audit Committee.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 18th March 2004