# RNA HOLDINGS LIMITED

*(Incorporated in Bermuda with limited liability)*

## INTERIM RESULTS
## FOR THE HALF YEAR ENDED 31 OCTOBER 2002

The board of directors (the "Board") of RNA Holdings Limited (the "Company") announces the unaudited condensed consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 31 October 2002. The unaudited condensed consolidated interim financial statements (the "Interim Financial Statements") have not been audited by the Company's auditors, but have been reviewed by the Company's audit committee (the "Audit Committee").

**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

| | | **Unaudited Six months ended 31 October** | |
|---|---|---|---|
| | | **2002** | 2001 |
| | *Notes* | ***HK$'000*** | *HK$'000* |
| TURNOVER | 3 | **2,086,241** | 5,460,705 |
| COST OF SALES | | **(2,086,886)** | (5,358,141) |
| GROSS PROFIT/(LOSS) | | **(645)** | 102,564 |
| Other revenue | | **15,828** | 8,776 |
| General and administrative expenses | | **(44,524)** | (59,521) |
| Selling and distribution expenses | | **(1,412)** | (3,538) |
| PROFIT/(LOSS) FROM OPERATING ACTIVITIES | 4 | **(30,753)** | 48,281 |
| Finance costs | | **(27,691)** | (26,629) |
| Share of profits and losses of associates | | **32,832** | 38,372 |
| Amortisation of goodwill on acquisition of associates | | **(19,033)** | (37,455) |
| Share of losses of jointly-controlled entities | | **(1,603)** | – |
| PROFIT/(LOSS) BEFORE TAX | | **(46,248)** | 22,569 |
| Tax | 5 | **(39)** | (2,282) |
| PROFIT/(LOSS) BEFORE MINORITY INTERESTS | | **(46,287)** | 20,287 |
| Minority interests | | **1,553** | 1,463 |
| NET PROFIT/(LOSS) FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS | | **(44,734)** | 21,750 |
| | | ***HK cents*** | *HK cents* |
| EARNINGS/(LOSS) PER SHARE* | | | |
| Basic | 6 | **(0.36)** | 0.82 |
| Diluted | | **–** | 0.72 |

* As adjusted for the share consolidation completed on 23 January 2003, the basic loss per share for the six months ended 31 October 2002 is adjusted to HK$0.04. The comparative amounts were adjusted retrospectively by taking into account the share consolidation. Accordingly, the basic and diluted earnings per share for the corresponding period in the prior year were adjusted to HK$0.08 and HK$0.07, respectively.

*Notes:*

1. **BASIS OF PREPARATION AND ACCOUNTING POLICIES**
The Interim Financial Statements of the Group are prepared in accordance with the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and in compliance with Hong Kong Statement of Standard Accounting Practice ("SSAP") 25 "Interim financial reporting" issued by the Hong Kong Society of Accountants.

The accounting policies and basis of presentation used in the preparation of the Interim Financial Statements are consistent with those used in the audited financial statements for the year ended 30 April 2002, except that the following new/revised SSAP's have been adopted for the first time in the preparation of the current period's Interim Financial Statements:

| | | |
|---|---|---|
| SSAP 1 (Revised) | : | "Presentation of financial statements" |
| SSAP 11 (Revised) | : | "Foreign currency translation" |
| SSAP 15 (Revised) | : | "Cash flow statements" |
| SSAP 34 | : | "Employee benefits" |

A summary of their major effects is as follows:

SSAP 1 (Revised) prescribes the basis for the presentation of financial statements and sets out guidelines for their structure and minimum requirements for the content thereof. The main revision to this SSAP is that a statement of changes in equity is in place of a statement of recognised gains and losses that was previously required. The condensed consolidated statement of changes in equity for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 11 (Revised) prescribes the basis for the translation of foreign currency transactions and financial statements. The principal impact of this revised SSAP on the condensed consolidated financial statements is that the profit and loss accounts of overseas subsidiaries and associates are now translated into Hong Kong dollars at the weighted average rates for the period, whereas previously they were translated at the exchange rates ruling at the balance sheet date as was previously required. The adoption of the revised SSAP 11 has had no material effect on the condensed consolidated statements for the current interim period.

SSAP 15 (Revised) prescribes the provision of information about historical changes in cash and cash equivalents by means of a cash flow statement which classifies cash flows during the period into operating, investing and financing activities. The condensed consolidated cash flow statement for the current interim period and the comparative figures have been presented in accordance with the revised SSAP.

SSAP 34 prescribes the accounting treatment and disclosures for employee benefits. This SSAP has had no material impact on these condensed consolidated financial statements.

**2. BASIS OF PRESENTATION – GOING CONCERN**

The Interim Financial Statements have been prepared on the assumption that the Group will continue to operate as a going concern notwithstanding the conditions prevailing at 31 October 2002 and subsequently up to the date of approval of the Interim Financial Statements. In preparing the Interim Financial Statements, the directors have considered the future liquidity of the Group particularly in light of the completion of the issuance of convertible bonds during the period, the completion of the Debt Restructuring subsequent to 31 October 2002, along with financing and other measures to be forthcoming. On the basis that continued financial support is extended by its principal bankers and creditors of the Group and the recovery of the Group's long term receivables, money loan and accounts receivables outstanding as at the balance sheet date and subsequent thereto, the directors are satisfied that the liquidity of the Group can be maintained in the foreseeable future and thereby it is appropriate to prepare the Interim Financial Statements on a going concern basis notwithstanding the conditions prevailing at 31 October 2002 and subsequently thereto up to the date of approval of the Interim Financial Statements. However, the validity of the going concern basis is dependent upon the ability of the Group to recover the long term receivables and money loans and accounts receivable. Provided that continued financial support is extended by its principal bankers and creditors of the Group and financing and other measures are forthcoming, the Group will be able to meet its financial obligations as they fall due in the foreseeable future.

The Interim Financial Statements do not incorporate any adjustments for the possible failure of the above mentioned measures and therefore the continuance of the Company and the Group as a going concern. Should the Group and the Company be unable to continue as a going concern, adjustments would have to be made to restate the value of the Group's and the Company's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and liabilities, respectively. The effect of these potential adjustments has not been reflected in the Interim Financial Statements.

**3. SEGMENT INFORMATION**

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 by products are as follows:

(a) the sale of gold bullion;
(b) the sale of gold ornaments, diamonds and other jewellery products;
(c) money lending and bullion financing;
(d) provision of an Internet-based electronic trading system to facilitate trading of precious metals, and related business; and
(e) corporate and property holding, including general corporate income and expense items.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The following table presents revenue and profit/(loss) for the Group's business segments.

| | Sale of gold bullion | | Sale of gold ornaments, diamonds and jewellery products | | Money lending and bullion financing | | Provision of Internet-based electronic trading system | | Corporate and property holding | | Eliminations | | Consolidated | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 | **2002** | 2001 |
| | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) | **(unaudited)** | (unaudited) |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Segment revenue: | | | | | | | | | | | | | | |
| Sales to external customers | **2,073,395** | 5,425,595 | **9,262** | 29,850 | **3,482** | 5,081 | **102** | 179 | **–** | – | **–** | – | **2,086,241** | 5,460,705 |
| Intersegment sales | **1,173,347** | 1,958,027 | **680** | 11,283 | **–** | – | **2,267** | 2,499 | **–** | – | **(1,176,294)** | (1,971,809) | **–** | – |
| Other revenue | **12,250** | – | **–** | – | **–** | – | **132** | – | **3,435** | 8,726 | **–** | – | **15,817** | 8,726 |
| Total | **3,258,992** | 7,383,622 | **9,942** | 41,133 | **3,482** | 5,081 | **2,501** | 2,678 | **3,435** | 8,726 | **(1,176,294)** | (1,971,809) | **2,102,058** | 5,469,431 |
| Segment results | **(18,414)** | 65,580 | **(2,440)** | (6,170) | **(628)** | 3,670 | **(3,841)** | (1,665) | **(4,468)** | (13,184) | **(973)** | – | **(30,764)** | 48,231 |
| Interest income | | | | | | | | | | | | | **11** | 50 |
| Profit/(loss) from operating activities | | | | | | | | | | | | | **(30,753)** | 48,281 |
| Finance costs | | | | | | | | | | | | | **(27,691)** | (26,629) |
| Share of profits and losses of associates | | | | | | | | | | | | | **32,832** | 38,372 |
| Amortisation of goodwill on acquisition of associates | | | | | | | | | | | | | **(19,033)** | (37,455) |
| Share of losses of jointly-controlled entities | | | | | | | | | | | | | **(1,603)** | – |
| Profit/(loss) before tax | | | | | | | | | | | | | **(46,248)** | 22,569 |
| Tax | | | | | | | | | | | | | **(39)** | (2,282) |
| Profit/(loss) before minority interests | | | | | | | | | | | | | **(46,287)** | 20,287 |
| Minority interests | | | | | | | | | | | | | **1,553** | 1,463 |
| Net profit/(loss) from ordinary activities attributable to shareholders | | | | | | | | | | | | | **(44,734)** | 21,750 |

## 4. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

| | Unaudited Six months ended 31 October | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Staff costs | **23,038** | 29,776 |
| Depreciation | **5,179** | 5,977 |
| Loss on disposal of fixed assets | **3** | 2,078 |

## 5. TAX

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period. In the prior period, Hong Kong profits tax was provided at a rate of 16% on the estimated assessable profits. Tax on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates based on existing legislation, interpretations and practices in respect thereof.

| | Unaudited Six months ended 31 October | |
|---|---|---|
| | **2002** | 2001 |
| | ***HK$'000*** | *HK$'000* |
| Current period provisions: | | |
| Hong Kong | **(16)** | 2,282 |
| Elsewhere | **55** | – |
| Tax charge for the period | **39** | 2,282 |

No provision for deferred tax has been made as the net effect of all timing differences is insignificant (2001: Nil).

The revaluation of the Group's investment properties in Hong Kong does not constitute any significant timing difference and, consequently, the amount of potential deferred tax thereon has not been quantified.

## 6. EARNINGS/(LOSS) PER SHARE

The calculation of basic earnings/(loss) per share is based on the unaudited net loss from ordinary activities attributable to shareholders for the six months ended 31 October 2002 of HK$44,734,000 (2001: unaudited net profit of HK$21,750,000) and on the weighted average of 12,376,135,085 (2001: 2,657,694,263) ordinary shares in issue during the period.

A diluted loss per share amount for the six months ended 31 October 2002 has not been disclosed because the share options, convertible notes, convertible bonds and redeemable convertible preference shares outstanding during the period had an anti-dilutive effect on the basic loss per share for the period.

The calculation of diluted earnings per share for the six months ended 31 October 2001 was based on the unaudited adjusted net profit from ordinary activities attributable to shareholders of HK$24,093,000 after adding back interest on convertible notes, net of tax, of HK$2,343,000 and the weighted average number of 2,657,694,263 ordinary shares in issue during the period plus (i) 456,019,938 ordinary shares deemed to be issued if all the convertible notes outstanding had been fully converted and (ii) 223,730,004 ordinary shares deemed to be issued if all the convertible redeemable preference shares had been converted. The calculation of this weighted average number of shares for diluted earnings per share had taken into account the effect of 10,819,583 convertible redeemable preference shares issued during the period at a notional value of HK$5 each which could be converted into ordinary shares of the Company at an initial conversion price of HK$0.2418 each. The calculation had not taken into account the ordinary shares deemed to be issued if the outstanding share options had been exercised as the effect was anti-dilutive.

Subsequent to the balance sheet date on 23 January 2003, every ten issued and unissued existing ordinary shares of the Company were consolidated into one consolidated share (the "Share Consolidation"). Taking into account of the Share Consolidation, the basic earnings/(loss) per share is calculated based on the unaudited net loss from ordinary activities attributable to shareholders of HK$44,734,000 (2001: unaudited net profit of HK$21,750,000) and on the adjusted weighted average number of 1,237,613,508 (2001: 265,769,426) ordinary shares in issue during the period.

The calculation of diluted earnings per share for the six months ended 31 October 2001 as adjusted for the Share Consolidation was based on the unaudited adjusted net profit from ordinary activities attributable to shareholders of HK$24,093,000 after adding back interest on convertible notes, net of tax, of HK$2,343,000 and on the adjusted weighted average number of 265,769,426 ordinary shares in issue during the period plus an adjusted number of (i) 45,601,993 ordinary shares deemed to be issued if all the convertible notes outstanding had been fully converted and an adjusted number of (ii) 22,373,000 ordinary shares deemed to be issued if all the convertible redeemable preference shares had been issued. The calculation of this adjusted weighted average number of shares for diluted earnings per share as adjusted for the Share Consolidation had taken into account the effect of 10,819,583 convertible redeemable preference shares issued during the period at a notional value of HK$5 each which could be converted into ordinary shares of the Company at an initial conversion price of HK$2.418 each. The calculation had not taken into account the ordinary shares deemed to be issued if the outstanding share options had been exercised as the effect was anti-dilutive.

## INTERIM DIVIDEND

The Board has resolved not to declare the payment of an interim dividend for the six months ended 31 October 2002 (2001: Nil).

## MANAGEMENT DISCUSSION AND ANALYSIS

### Financial results

The Group's turnover for the six months ended 31 October 2002 was approximately HK$2,086.2 million representing 61.8% decrease from approximately HK$5,460.7 million for the corresponding period in the previous year. The significant decrease in the turnover was mainly attributable to the reduction in the source of supply of gold bullion obtained by the gold bullion operation.

For the six months ended 31 October 2002, the Group recorded a net loss from ordinary activities attributable to the shareholders of HK$44.7 million (2001: net profit of HK$21.8 million) mainly resulted from the decrease in the turnover and the profit margin from the sales of gold bullion and jewellery products for strategic measures in maintaining its market position and source of supplies of the Group for future recovery of the economy in Hong Kong. However, the associates engaged in the jewellery retail network business in Mainland China was able to contribute a net profit of HK$13.8 million (2001: HK$0.9 million) after deducting its amortisation of goodwill.

### Segment information

An analysis of the Group's turnover and contribution to results by principal activities for the period ended 31 October 2002 is set out in note 3 above.

### Liquidity and financial resources

As at 31 October 2002, the Group had bank borrowings of HK$164.8 million, other short term borrowings of HK$180.4 million, convertible notes of HK$129.2 million, promissory notes of HK$39 million and convertible bonds of HK$85.1 million. Of these borrowings, approximately HK$211 million was secured by certain of the Group's assets and approximately HK$503.2 million was repayable within one year. The current ratio of the Group as at 31 October 2002 was slightly reduced to 0.64 based on the total current assets of HK$648.7 million and the total current liabilities of HK$1,011.4 million in comparison with that in the previous year at 0.65. Calculated on the basis of the Group's net borrowings after deduction of cash and bank balances of HK$1.8 million and gold bullion of HK$86.2 million over shareholders' fund of HK$1,099.5 million, the Group had a gearing ratio of 0.46 as at 31 October 2002.

At 30 April 2002, there were total outstanding convertible bonds of HK$84.9 million. During the period under review, convertible bonds of an aggregate amount of approximately HK$523 million was further issued, of which the proceeds were utilised to reduce certain existing indebtedness and as general working capital for the Group. During the same period, of these convertible bonds of an aggregate amount of approximately HK$607.9 million convertible bonds of approximately HK$522.8 million were converted into 10,176,660,000 ordinary share. As at 31 October 2002, the total outstanding convertible bonds amounted to approximately HK$85.1 million.

In March 2003, the Company announced a restructuring proposal involves capital reorganisation and debt restructuring. Creditors with aggregate claims of approximately HK$764 million participated in the debt restructuring by entering into subscription agreements for shares or convertible bonds of the Company. The capital reorganisation included a capital reduction and share subdivision, pursuant to which the nominal value of each ordinary share in issue would be reduced from HK$1.00 to HK$0.001 each by cancelling HK$0.999 paid up capital on each issued share, and each unissued ordinary share would be subdivided into 1,000 new shares of HK$0.001 each. The capital reorganisation and debt restructuring were duly approved by the shareholders of the Company at the special general meeting held on 14 July 2003 and the capital reorganisation became effective on the same date. Completion of the debt restructuring took place on 15 July 2003, an aggregate of 17,011,153,137 shares and approximately HK$423 million three-year zero coupon convertible bonds were issued by the Company in relation thereof. Upon completion of the debt restructuring, the issued share capital of the Company was increased to 18,706,642,373 shares of HK$0.001 each. On the other hand, the Group's total indebtedness would be reduced by approximately HK$340 million and the annual interest savings as a result thereof would be approximately HK$30 to 40 million.

**Subsidiaries**

During the period, the Group disposed of its interest in certain subsidiaries which were engaged in property investment holding located outside Hong Kong to an independent third party for a total cash consideration of HK$44,800,000. The proceeds from the disposal were utilised to repay the respective mortgage loans borrowed from banks or financial institutions. The disposal did not result in any significant gain or loss to the Group.

On 18 July 2002, 399,000,000 ordinary shares were issued and allotted for cash at HK$0.023 each by Trasy Gold Ex Limited ("Trasy") to six independent third parties. As a result, the Group's equity interest in Trasy was diluted from 58.46% to 50.07%. The deemed partial disposal of Trasy arising therefrom did not result in any significant gain or loss to the Group.

**Foreign currency exposure**

The Group did not have significant exposure to foreign exchange fluctuation as most of the assets, liabilities and transactions conducted during the period were denominated in Hong Kong dollars, Renminbi or United States dollars.

**Charges on Group assets**

As at 31 October 2002, the Group's certain fixed assets, interests in subsidiaries, inventories and bank deposits were pledged to banks and non-financial institutions to secure certain facilities and borrowings of an aggregate amount of approximately HK$211 million granted to the Group.

**Operating lease arrangements and contingent liabilities**

Details of the Group's operating lease arrangements and contingent liabilities as at 31 October 2002 are disclosed in full in the Interim Financial Statements.

**Employee and remuneration policy**

As at 31 October 2002, the Group had 97 employees and the total staff costs including directors' remuneration amounted to HK$23 million for the six months ended 31 October 2002. Other benefits provided by the Group to its employees include provident funds and medical coverage. During the period under review, no share options were granted to any directors or employees of the Group under the Group's share option scheme.

**Business review**

*Hong Kong*

During the period under review, the gold price fluctuated within a narrow range with an upward trend. The investment markets had continuously participated in the gold investment market. In addition, the source of supply of gold bullion from overseas to Hong Kong was also decreased due to the softened local consumption power and competition arising from the liberalization of the gold market in Mainland China. The Group relatively had scaled down the activities in its gold bullion and jewellery retail operations in Hong Kong. In maintaining the existing customer base and source of supplies for future recovery of the economy in Hong Kong, the Group strategically reduced the profit margin of its sales to sustain its market position. On the other hand, the Group also commenced to gradually cut down the relevant operating costs as a result of the downsizing of the activities. Nevertheless, the Group is confident of the recovery of the local economy and that the gold bullion and jewellery retail business of the Group will benefit from it thereon.

*Mainland China*

For the six months ended 31 October 2002, the associates of the Group engaged in the jewellery retail network business in Mainland China continuously contributed a share of its net profit after amortisation of the relevant goodwill amounting to HK$13.8 million (2001: HK$0.9 million) although the competition in the jewellery retail market was increasing for the liberalisation of the gold market in Mainland China.

The Group's newly promoted business in franchising the jewellery brand of "Diamond Link" in Mainland China was in good progress. Various negotiations with the potential franchisees for the opening of franchised outlets in Chengdu, Qingdao, Nanjing, Beijing, Dalian, Shenzhen, Qinhuangdao, Xian, Shenyang and Wuhan has been being proceeded after having successfully launched three franchised outlets in Shanghai, Changchun and Harbin. In this respect, the Group will further concentrate its strengths and resources on the development in the jewellery franchise business with its knowledge in the logistic operation in Mainland China gained from its existing jewellery retail investment.

The Sixth Annual RNA China Gold and Precious Metals Conference in Shanghai as organized by the Group was held in September 2002 and attended by hundreds of representatives of the gold and jewellery enterprises from Mainland China and Hong Kong and other international bullion institutions and jewelers. As an organizer of the conference, the Group will continuously contribute its network in the international gold market to enhance the exchange of information and knowledge between international and Mainland China gold industry by inviting renowned speakers from the international gold industry to share their insights to the development of the gold industry in Mainland China with the domestic gold and jewellery operators.

*Penang, Malaysia*

As the economy in this region was slowly recovered, the sales activities in Malaysia was slightly increased and its operations had made an effort to sustain and are looking forward to pick up once the fundamental demand improves.

**Future prospects**

Since the harsh downturn of the Hong Kong economy and the outbreak of Severe Acute Respiratory Syndrome in Greater China region further harmfully dampened the retail business in Hong Kong and Mainland China in the second half of the financial year 2002/03, the Group's performance had been relatively affected. However, the Group has effectively taken some strategic measures including the maintenance of its market position and resources for future business development, gradual cut-down of its operating costs for meeting the relatively reduced operational capacity.

In addition, the Group has successfully completed its debt restructuring exercise in July 2003. This has effectively reduced the level of the total indebtedness of the Group by issuance of ordinary shares of HK$340 million to repay the existing debts to the same extent. The Group will benefit from the debt restructuring exercise with an effective cut-down of finance costs of approximately HK$30 to 40 million a year in the future.

The Government of Hong Kong Special Administrative Region has recently entered into the Closer Economic Partnership Agreement ("CEPA") with the Central Government for Hong Kong industrialists. It is expected that the demand for the raw materials for manufacturing of jewellery products in Hong Kong will be improved after the commencement of the CEPA and the Group will relatively benefit therefrom for more active local sales of gold bullion in the coming future.

**AUDIT COMMITTEE**

The Interim Financial Statements have been reviewed by the Audit Committee. The Audit Committee has also reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters.

**INTERIM RESULTS PUBLISHED ON THE WEBSITE OF THE STOCK EXCHANGE OF HONG KONG LIMITED**

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange of Hong Kong Limited (http://www.hkex.com.hk) as soon as practicable.

By Order of the Board
**RNA Holdings Limited**
**Chan Fat Chu, Raymond**
*Chairman*

Hong Kong, 1 August 2003

Please also refer to the published version of this announcement in The Standard.