



CONTINENTAL

HOLDINGS LIMITED

恒和珠寶集團有限公司

(incorporated in Hong Kong with limited liability)

(Stock Code: 00513)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

INTERIM RESULTS

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 31 December 2008 together with the comparative figures for the corresponding period in 2007.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 31 December	
		2008	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	754,208	790,791
Cost of sales		(675,266)	(701,655)
Gross profit		78,942	89,136
Selling and distribution costs		(11,826)	(13,581)
Administrative expenses		(54,683)	(40,349)
Other operating expenses		(5,082)	(42)
Change in fair value of investment properties		(53,920)	—
(Loss)/Profit from operations		(46,569)	35,164
Finance costs	5	(8,291)	(12,398)
Share of results of associates		77	(259)
Share of results of jointly controlled entities		7,495	65
(Loss)/Profit before income tax	6	(47,288)	22,572
Income tax credit/(expense)	7	6,993	(2,270)
(Loss)/Profit for the period		<u>(40,295)</u>	<u>20,302</u>
Attributable to:			
Equity holders of the Company		(40,295)	20,432
Minority interests		—	(130)
(Loss)/Profit for the period		<u>(40,295)</u>	<u>20,302</u>
Interim dividends	8	<u>3,128</u>	<u>2,798</u>
(Loss)/Earnings per share	9		
– Basic		<u>(HK13.5 cents)</u>	<u>HK7.3 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited At 31 December 2008 HK\$'000	Audited At 30 June 2008 HK\$'000
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		438,537	50,723
Leasehold land/Land use rights		8,999	9,119
Investment properties		683,000	752,400
Interests in associates		3,820	3,606
Interests in jointly controlled entities		221,667	131,978
Available-for-sale financial assets		10,149	14,177
Long-term receivables		3,773	6,135
Deferred tax assets		8,890	8,890
		<u>1,378,835</u>	<u>977,028</u>
Current assets			
Inventories		260,809	338,573
Trade receivables	10	176,224	168,745
Prepayments, deposits and other receivables		27,985	42,257
Current portion of long-term receivables		5,981	4,926
Financial assets at fair value through profit or loss		7,311	12,763
Due from associates		337	493
Due from a jointly controlled entity		117	120
Cash and bank balances		73,416	128,868
		<u>552,180</u>	<u>696,745</u>
Current liabilities			
Trade payables	11	(142,961)	(199,930)
Other payables and accruals		(41,109)	(46,170)
Provision for tax		(14,314)	(17,183)
Due to associates		(386)	(538)
Due to a jointly controlled entity		—	(3)
Bank loans and overdrafts, secured		(210,445)	(90,870)
		<u>(409,215)</u>	<u>(354,694)</u>
Net current assets		<u>142,965</u>	<u>342,051</u>
Total assets less current liabilities		1,521,800	1,319,079

	Unaudited	Audited
	At 31 December	At 30 June
	2008	2008
<i>Notes</i>	HK\$'000	HK\$'000
Non-current liabilities		
Loan from minority shareholder	(1,125)	(1,125)
Deferred tax liabilities	(56,642)	(66,972)
Note payable – promissory note	(50,000)	–
Bank loans, secured	(534,625)	(372,409)
	<u>(642,392)</u>	<u>(440,506)</u>
Net assets	<u>879,408</u>	<u>878,573</u>
EQUITY		
Equity attributable to the Company's equity holders		
Issued capital	31,283	27,980
Reserves	843,132	844,531
Proposed interim/final dividend	3,128	4,197
	<u>877,543</u>	<u>876,708</u>
Minority interests	1,865	1,865
Total equity	<u>879,408</u>	<u>878,573</u>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The unaudited condensed consolidated interim financial statements (“interim financial statements”) have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The condensed interim financial statements have been prepared under the historical cost basis except for investment properties and certain financial assets, which are measured at fair value, as appropriate.

The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2008.

In the current period, the Group has applied for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are relevant to and effective for the Group’s financial statements beginning on 1 July 2008. The adoption of such new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustments has been required.

The Group has not early applied for the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but not yet in a position to state whether they would have material impact on the results and the financial position of the Group.

Various HKFRSs	Annual Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation ²
HKAS 39 (Amendments)	Eligible Hedged Items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 2 (Amendment)	Share-based Payment-Vesting Conditions and Cancellations ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ²
HK(IFRIC) Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC) Int 16	Hedges of a Net Investment in a Foreign Operation ⁴
HK(IFRIC) Int 17	Distribution to Non-cash Assets to Owners ³
HK(IFRIC) Int 18	Transfer of Assets from Customers ⁵

¹ Effective for annual periods beginning on or after 1 January 2009 except the amendments to HKFRS 5, effective for annual periods beginning on or after 1 July 2009

² Effective for annual periods beginning on or after 1 January 2009

³ Effective for annual periods beginning on or after 1 July 2009

⁴ Effective for annual periods beginning on or after 1 October 2008

⁵ Effective for transfers of assets from customers received on or after 1 July 2009

3. SEGMENT INFORMATION

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) design, manufacturing, marketing and trading of fine jewellery and diamonds;
- (b) property investment; and
- (c) investment.

In determining the Group’s geographical segments, revenues are attributed to the segments based on the location of the customers.

(a) Business segment

The following table presents revenue and results for the Group's business segments

		Unaudited Six months ended 31 December							
		Design, manufacturing, marketing and trading of fine jewellery and diamonds		Property investment		Investment		Consolidated	
		2008	2007	2008	2007	2008	2007	2008	2007
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:									
Sales to/revenue from external parties		<u>734,090</u>	<u>773,663</u>	<u>18,945</u>	<u>15,083</u>	<u>1,173</u>	<u>2,045</u>	<u>754,208</u>	<u>790,791</u>
Segment results		<u>10,742</u>	<u>19,827</u>	<u>(36,366)</u>	<u>13,399</u>	<u>(17,819)</u>	<u>3,383</u>	<u>(43,443)</u>	<u>36,609</u>
Unallocated expenses								<u>(3,126)</u>	<u>(1,445)</u>
(Loss)/Profit from operations								<u>(46,569)</u>	<u>35,164</u>
Finance costs								<u>(8,291)</u>	<u>(12,398)</u>
Share of results of associates								<u>77</u>	<u>(259)</u>
Share of results of jointly controlled entities								<u>7,495</u>	<u>65</u>
(Loss)/Profit before income tax								<u>(47,288)</u>	<u>22,572</u>

(b) Geographical segment

The following table represents revenue for the Group's geographical segments.

		Sales revenue by geographical market Unaudited Six months ended 31 December	
		2008	2007
		HK\$'000	HK\$'000
North America		375,348	397,164
Europe		260,544	281,766
Hong Kong		107,952	104,514
Other locations		10,364	7,347
		<u>754,208</u>	<u>790,791</u>

4. REVENUE

Revenue, which is also the Group's turnover, represents the net invoiced value of goods sold, after allowances for returns and trade discounts, gross rental income, interest income and dividend income from investments.

An analysis of the Group's revenue is as follows:

	Unaudited	
	Six months ended	
	31 December	
	2008	2007
	HK\$'000	HK\$'000
Sale of goods	734,233	773,663
Gross rental income	18,945	15,083
Interest income	771	1,755
Dividend income from investments	259	290
	<u>754,208</u>	<u>790,791</u>

5. FINANCE COSTS

	Unaudited	
	Six months ended	
	31 December	
	2008	2007
	HK\$'000	HK\$'000
Interest expenses on bank loans and overdrafts wholly repayable within five years	2,839	1,896
Interest expenses on bank loans repayable over five years	5,099	10,502
	<u>7,938</u>	<u>12,398</u>
Interest expenses on promissory note repayable within five years	353	—
	<u>8,291</u>	<u>12,398</u>

6. (LOSS)/PROFIT BEFORE INCOME TAX

(Loss)/Profit before income tax is stated after charging/(crediting):

	Unaudited	
	Six months ended	
	31 December	
	2008	2007
	HK\$'000	HK\$'000
Cost of inventories sold	675,266	701,655
Fair value loss/(gain) on financial assets at fair value through profit or loss	5,075	(2,439)
Depreciation of property, plant and equipment	4,261	3,847
Amortisation of leasehold land/land use right	120	120
Operating leases – land and buildings	2,148	2,605
Provision for bad and doubtful debts	1,450	4,339
Exchange loss/(gain)	11,731	(779)
	<u>11,731</u>	<u>(779)</u>

7. INCOME TAX (CREDIT)/EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong for the period. Taxes on profits assessable elsewhere have been calculated on the estimated assessable profits for the period at the rates of tax prevailing in the jurisdictions in which the Group operates.

The amount of taxes (credited)/charged to the condensed consolidated income statement represents:

	Unaudited	
	Six months ended	
	31 December	
	2008	2007
	HK\$'000	HK\$'000
Hong Kong profits tax		
– current	3,337	2,270
Deferred tax		
– current	(10,330)	–
	<u>(6,993)</u>	<u>2,270</u>

8. DIVIDENDS

	Unaudited	
	Six months ended	
	31 December	
	2008	2007
	HK\$'000	HK\$'000
2008 final paid – HK\$0.015 (2007 final paid: HK\$0.02) per ordinary share	<u>4,692*</u>	<u>5,596</u>
2009 Interim, declared on 23 March 2009, of HK\$0.01 (2008: HK\$0.01) per ordinary share	<u>3,128</u>	<u>2,798</u>

* The actual final dividends paid for year ended 30 June 2008 was HK\$4,692,000 due to additional shares issued and allotted on 22 September 2008.

9. (LOSS)/EARNINGS PER SHARE

The calculation of (loss)/earnings per share is based on the Group's loss attributable to equity holders of the Company of HK\$40,295,000 (2007: Profit of HK\$20,432,000) and on the weighted average of 297,930,795 (2007: 279,800,031) ordinary shares in issue during the period.

No diluted (loss)/earnings per share is shown as the Company has no dilutive ordinary shares at 31 December 2008 and 2007.

10. TRADE RECEIVABLES

The Group normally apply credit terms to its customers according to industry practice together with consideration of its credibility, repayment history and years of establishment. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are regularly reviewed by senior management.

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 31 December 2008	55,763	49,956	33,326	37,179	176,224
Audited balance at 30 June 2008	82,269	36,343	17,430	32,703	168,745

11. 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 31 December 2008	56,935	16,599	18,823	50,604	142,961
Audited balance at 30 June 2008	104,170	41,260	21,085	33,415	199,930

BUSINESS REVIEW AND PROSPECTS

During the six months ended 31 December 2008 the Group achieved a turnover of HK\$754,208,000 (2007: HK\$790,791,000) and a loss attributable to equity holders of HK\$40,295,000 (2007: a profit attributable to equity holders of HK\$20,432,000).

Overall jewellery business has been flat for the last six months. Due to the domino effect triggered by the sub-prime mortgage crisis in the United States, the overall North American market has been heavily affected. The jewellery industry impacted by the tightening credit markets, decreasing liquidity, and the volatile gold prices have led to a weaker Christmas holiday season. We have taken stronger and tighter cost control measures to ensure higher operational efficiency for our jewellery and diamond operations.

The Group as a whole is impacted by the unfavorable macro-environment. The current market conditions have significantly softened real estate prices resulting in a decrease in re-valuation of the Group's real estate investments. Despite the change in valuation, we continue to have a steady rental income stream on existing properties. We maintain conservative in our future approach while keeping a lookout for quality investment opportunities.

BUSINESS OUTLOOK

Going forward, we foresee a weak luxury consumption pattern internationally. The financial tsunami affecting both American and European markets will continue to impact sales in 2009. To withstand a stronger position for the company, we anticipate much tighter cost controls and implement stronger governance on monitoring our receivables. We feel confident that with the competent management team and a conservative company culture, we have a solid foundation to re-position ourselves to a more advantageous position in this challenging environment.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.01 per share for the six months ended 31 December 2008 (2007: HK\$0.01), totalling HK\$3,128,000 (2007: HK\$2,798,000), payable in cash on Thursday, 23 April 2009.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from Tuesday, 14 April 2009 to Wednesday, 15 April 2009, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to qualify for the interim dividend mentioned above, 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, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Thursday, 9 April 2009.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2008, the Group had a moderate gearing ratio of 0.45 (30 June 2008: 0.28), which is net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank and other borrowings less the sum of time deposits and cash and bank balances. Total cash and bank balances were HK\$73,416,000 (30 June 2008: HK\$128,868,000) which were mainly denominated in Hong Kong Dollars, US Dollars and UK Pounds, while bank loans and overdrafts were HK\$745,070,000 (30 June 2008: HK\$463,279,000) which were mainly denominated in Hong Kong Dollars. The movement represents mainly the purchase of property, plant and equipment through the acquisition by the Group of the entire equity interest in Precious Palace International Limited and its subsidiary from a company wholly owned by Mr. Chan and investments in jointly-controlled entity. These bank loan and overdrafts are secured by first legal charges over the Group's investment properties and certain leasehold land and buildings, assignment of rental income of the investment property and corporate guarantees executed by the Company.

In line with the Group's prudent financial management, the Directors considered that the Group has sufficient working capital to meet its operational requirements.

PLEDGE OF ASSETS

As at 31 December 2008, investment properties and certain leasehold land and buildings of the Group with an aggregate net book/carrying value of HK\$1,087,527,000 (30 June 2008: HK\$776,972,000) were pledged to certain banks to secure general banking facilities granted to the Group.

CAPITAL STRUCTURE

There was no change to the Group's capital structure during the six months ended 31 December 2008.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEMES

As at 31 December 2008, the Group employed a total of approximately 2,000 employees (30 June 2008: 2,100), the majority of whom are employed in the PRC. The Group's remuneration package for its employees is largely based on industry practice. No share option scheme was adopted during the six months ended 31 December 2008.

EXPOSURE TO FINANCIAL RISKS AND RELATED HEDGES

The Group utilizes conservative strategies on its risk management and the market risk is kept to minimum. With the exception of the UK subsidiary, all transactions and the borrowings of the Group are primarily denominated in US Dollars and/or Hong Kong Dollars. The risk of foreign exchange fluctuations is minimal under the peg. During the period, the exchange rate swap contracts entered by the Group matured and thereafter, the Group did not use any other derivative financial instrument for hedging purposes. The Group had exposure to exchange rate risk as a result of fluctuation in UK pounds during the six months ended 31 December 2008. Management will continue to monitor the foreign exchange exposure and will take appropriate action when necessary. During the six months ended 31 December 2008, the Group did not use any other financial instruments for hedging purposes. As of 31 December 2008, 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.

CORPORATE GOVERNANCE

The Group has adopted all the Code Provisions in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules") throughout the six months ended 31 December 2008 except the following deviations:

1. Code Provision A.2.1 stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Dr. Chan Sing Chuk Charles currently holds both positions. The Board believes that vesting the roles of Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership in the development and execution of long-term business strategies.
2. Code Provision A.4.1 provides that non-executive Directors should be appointed for a specific term, subject to re-election. The non-executive Directors of the Company are not appointed for specific terms but are subject to retirement by rotation and re-election at the Company's AGM. However, under article 115(D), all Directors including non-executive Directors of the Company are subject to retirement by rotation and re-election at the Company's AGM at least once every three years.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code for securities transactions by Directors set out in Appendix 10 of the Listing Rules as its own code of conduct regarding Directors' securities transactions in relation to the accounting period covered by this interim report. The Company confirms that, having made specific enquiry of all Directors, the Directors have complied with the required standards of dealing as set out therein.

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 financial statements for the six months ended 31 December 2008. The unaudited interim financial statements have been approved by the Audit Committee. The Audit Committee comprises four independent non-executive Directors and one non-executive Director of the Company.

PUBLICATION OF INTERIM RESULTS

This result announcement is published on the HKEx's website – <http://www.hkex.com.hk>.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 23 March 2009

As at the date of this announcement, Dr. Chan Sing Chuk, Charles BBS, JP, 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.