

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



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 2019**

The board of directors (the “Board”) of Continental Holdings Limited (the “Company”) announces the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 31 December 2019 together with the comparative figures for the corresponding period in 2018 as follows:

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME**

		Unaudited	
		Six months ended	
		31 December	
		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue	4	286,211	244,755
Cost of sales		(208,774)	(186,163)
Gross profit		77,437	58,592
Selling and distribution costs		(10,687)	(7,046)
Administrative expenses		(59,659)	(50,006)
Other operating income		3,166	5,670
Change in fair value of financial assets at fair value through profit or loss		(601)	(878)
Finance costs	5	(3,627)	(2,772)
Share of results of associates		(90)	–
Share of results of joint ventures		(26)	(1,102)
Profit before income tax	6	5,913	2,458
Income tax (expense)/credit	7	(2)	38
Profit for the period		5,911	2,496

**CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND
OTHER COMPREHENSIVE INCOME (CONTINUED)**

		Unaudited	
		Six months ended	
		31 December	
		2019	2018
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Other comprehensive income for the period, net of tax			
Items that will not be subsequently reclassified to profit or loss:			
Change in fair value of financial assets at fair value through other comprehensive income		(2,590)	337
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations, associates and joint ventures		(7,506)	(17,887)
Other comprehensive income for the period, net of tax		(10,096)	(17,550)
Total comprehensive income for the period		(4,185)	(15,054)
Profit for the period attributable to:			
Owners of the Company		6,788	2,498
Non-controlling interests		(877)	(2)
		5,911	2,496
Total comprehensive income for the period attributable to:			
Owners of the Company		(3,308)	(15,052)
Non-controlling interests		(877)	(2)
		(4,185)	(15,054)
		<i>HK cent</i>	<i>HK cent</i>
Earnings per share for profit attributable to the owners of the Company during the period	9		
Basic		0.1	0.04
Diluted		0.1	0.04

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited At 31 December 2019 <i>HK\$'000</i>	Audited At 30 June 2019 <i>HK\$'000</i>
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		52,541	52,995
Land use rights		28,795	29,871
Payments for leasehold land and buildings held for own use under operating lease		15,734	–
Investment properties	10	1,526,947	1,511,200
Mining right		589,441	598,387
Interests in associates		17,772	17,862
Interests in joint ventures		1,974	1,999
Financial assets at fair value through other comprehensive income		20,701	20,023
Goodwill	14	8,124	–
Intangible assets		8,238	–
Deferred tax assets		5,762	5,762
		2,276,029	2,238,099
Current assets			
Property under development	11	307,437	301,662
Inventories		220,313	165,415
Trade receivables	12	157,347	114,881
Prepayments, deposits and other receivables		15,270	20,372
Financial assets at fair value through profit or loss		12,823	13,424
Due from joint ventures		54	54
Cash and cash equivalents		547,336	621,380
		1,260,580	1,237,188
Current liabilities			
Trade payables	13	(85,379)	(64,059)
Other payables and accruals		(60,516)	(50,682)
Contract liabilities		(438)	(1,227)
Bank loans		(757,917)	(743,575)
Obligation under finance leases		–	(35)
Lease liabilities		(2,580)	–
Dividend payable		(17,078)	–
Due to a non-controlling interest		(23,661)	(21,671)
Derivative financial instruments		(54)	–
Provision for tax		(2,310)	(2,281)
		(949,933)	(883,530)
Net current assets		310,647	353,658
Total assets less current liabilities		2,586,676	2,591,757

**CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(CONTINUED)**

	Unaudited	Audited
	At	At
	31 December	30 June
	2019	2019
	HK\$'000	HK\$'000
Non-current liabilities		
Lease liabilities	(13,393)	–
Due to related companies	(30,534)	(31,669)
Loan from a controlling shareholder	(4,481)	(4,549)
Deferred tax liabilities	(131,505)	(133,108)
	<u>(179,913)</u>	<u>(169,326)</u>
Net assets	<u>2,406,763</u>	<u>2,422,431</u>
EQUITY		
Share capital	560,673	560,673
Reserves	1,657,734	1,678,120
	<u>2,218,407</u>	<u>2,238,793</u>
Equity attributable to the owners of the Company	2,218,407	2,238,793
Non-controlling interests	188,356	183,638
	<u>2,406,763</u>	<u>2,422,431</u>
Total equity	<u>2,406,763</u>	<u>2,422,431</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

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

The condensed consolidated interim financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”) on the historical cost basis except for the investment properties and certain financial assets, which are measured at fair values.

The accounting policies and basis of preparation adopted in the preparation of the condensed consolidated interim financial statements are consistent with those used in the Group’s annual financial statements for the year ended 30 June 2019, except for those that relate to new standards or interpretations effective for the first time for periods beginning on or after 1 July 2019. This is the first set of the Group’s condensed consolidated interim financial information in which HKFRS 16 has been adopted. Details of any changes in accounting policies are set out in note 2(c).

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the annual financial statements of the Group for the year ended 30 June 2019. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with HKFRSs.

The financial information relating to the year ended 30 June 2019 that is included in the condensed consolidated interim financial statements as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) (the “Companies Ordinance”) is as follows:

The Company has delivered the financial statements for the year ended 30 June 2019 to the Registrar of Companies in accordance with section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company’s auditor has reported on those financial statements. The auditor’s report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) New and amended standards adopted by the Group

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs and amendments which are relevant to and effective for the Group's interim financial statements for interim period beginning on 1 July 2019, issued by the HKICPA.

HKFRS 16	Leases
HK(IFRIC)-Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Annual Improvements to HKFRSs 2015-2017 cycle	Amendments to HKFRS 3 Business Combinations, HKFRS 11 Joint Arrangements, HKAS 12 Income Taxes and HKAS 23 Borrowing Costs

Other than explained in note 2 (c) below regarding the impact of HKFRS 16, the adoption of the new and amended HKFRSs in the current interim period, has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated interim financial statements.

(b) New standards and amendments to standards issued but are not yet effective

The following new and revised HKFRSs, potentially relevant to the Group's financial statements, that have been issued, but are not yet effective in the financial period of which the condensed consolidated interim financial statements were prepared, have not been early adopted by the Group.

Amendments to HKAS 1 and HKAS 8	Definition of Material ¹
Amendments to HKFRS 3	Definition of a Business ¹
HKFRS 17	Insurance Contracts ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³

¹ Effective for annual periods beginning on or after 1 January 2020.

² Effective for annual periods beginning on or after 1 January 2021.

³ The amendments were originally intended to be effective for periods beginning on or after 1 January 2016. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 16

(i) *Impact of the adoption of HKFRS 16*

HKFRS 16 replaces HKAS 17 Leases (“HKAS 17”), HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases-Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. From a lessee’s perspective, almost all leases are recognised in the condensed consolidated statement of financial position as right-of-use assets and lease liabilities, with the narrow exception to this principle for leases which the underlying assets are of low-value or are determined as short-term leases. From a lessor’s perspective, the accounting treatment is substantially unchanged from HKAS 17. For details of HKFRS 16 regarding its new definition of a lease, its impact on the Group’s accounting policies and the transition method adopted as allowed under HKFRS 16 are set out below.

The Group has applied HKFRS 16 using the cumulative effect approach and recognised the right-of-use asset at the amount equal to the lease liability, adjusted by the amount of any prepayments or accrued lease payments relating to that lease recognised in the condensed consolidated statement of financial position as at 30 June 2019. The comparative information presented in 2019 has not been restated and continues to be reported under HKAS 17 and related interpretations as allowed by the transition provision in HKFRS 16.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “finance lease payables”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in the superseded HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 16 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following table reconciles the operating lease commitments as at 30 June 2019 to the opening balance for lease liabilities recognised as at 1 July 2019:

	1 July 2019 <i>HK\$'000</i>
Operating lease commitments at 30 June 2019	3,577
Less: Commitments relating to leases exempt from capitalisation:	
– Variable leases payment	(163)
– Short-term leases and other leases with remaining lease term ending on or before 30 June 2020	(1,706)
Less: Total future interest expenses	<u>(63)</u>
Present value of remaining lease payments, discounted using incremental borrowing rate at 1 July 2019	1,645
Add: Finance lease liabilities recognised as at 30 June 2019	<u>35</u>
Total lease liabilities recognised at 1 July 2019	<u><u>1,680</u></u>
Analysed as:	
Current	958
Non-current	<u>722</u>
Total lease liabilities recognised at 1 July 2019	<u><u>1,680</u></u>

The lessee's incremental borrowing rate applied to lease liabilities recognised in the condensed consolidated statement of financial position as at 1 July 2019 is ranging from 4.4% to 5.1%.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 16 (continued)

(i) *Impact of the adoption of HKFRS 16 (continued)*

Right-of-use assets relating to leasehold land and building in Hong Kong and prepaid lease payments in respect of the land use right in the People's Republic of China ("PRC") are currently recognised as right-of-use assets upon application of HKFRS 16 and are included in the same line item as property, plant and equipment and land use rights respectively as that within which the corresponding assets. Right-of-use assets related to interests in leasehold land where the interest in the land is held as inventories are included in the same line item as properties under development as that within which the corresponding assets.

The carrying amount of right-of-use assets as at 1 July 2019 comprises the following:

	1 July 2019 <i>HK\$'000</i>
Right-of-use assets relating to operating leases recognised upon application of HKFRS 16	1,645
Amount included in property, plant and equipment under HKAS 17	
– Assets previously under finance leases	–
Total right-of-use assets recognised at 1 July 2019	<u><u>1,645</u></u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 16 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group's condensed consolidated statement of financial position:

	Carrying amount at 30 June 2019 <i>HK\$'000</i>	Capitalisation of operating lease contracts <i>HK\$'000</i>	Carrying amount at 1 July 2019 <i>HK\$'000</i>
ASSETS			
Payments for leasehold land and buildings held for own use under operating lease	–	1,645	1,645
LIABILITIES			
Finance lease payables (current)	(35)	35	–
Lease liabilities (current)	–	(958)	(958)
Finance lease payables (non-current)	–	–	–
Lease liabilities (non-current)	–	(722)	(722)
Net effects	(35)	–	(35)

The new definition of a lease

Under HKFRS 16, a lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. A contract conveys the right to control the use of an identified asset for a period of time when the customer, throughout the period of use, has both: (a) the right to obtain substantially all of the economic benefits from use of the identified asset and (b) the right to direct the use of the identified asset.

For a contract that contains a lease component and one or more additional lease or non-lease components, a lessee shall allocate the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components, unless the lessee apply the practical expedient which allows the lessee to elect, by class of underlying asset, not to separate non-lease components from lease components, and instead account for each lease component and any associated non-lease components as a single lease component.

The Group has elected not to separate non-lease components and account for all each lease component and any associated non-lease components as a single lease component for all leases.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 16 (continued)

(i) *Impact of the adoption of HKFRS 16 (continued)*

Accounting as a lessee

Under HKAS 17, a lessee has to classify a lease as an operating lease or a finance lease based on the extent to which risks and rewards incidental to ownership of a lease asset lie with the lessor or the lessee. If a lease is determined as an operating lease, the lessee would recognise the lease payments under the operating lease as an expense over the lease term. The asset under the lease would not be recognised in the condensed consolidated statement of financial position of the lessee.

Under HKFRS 16, all leases (irrespective of they are operating leases or finance leases) are required to be capitalised in the condensed consolidated statement of financial position as right-of-use assets and lease liabilities, but HKFRS 16 provides accounting policy choices for an entity to choose not to capitalise (i) leases which are short-term leases and/or (ii) leases for which the underlying asset is of low-value. The Group has elected not to recognise right-of-use assets and lease liabilities for low-value assets and leases for which at the commencement date have a lease term less than 12 months. The lease payments associated with those leases have been expensed on straight-line basis over the lease term.

The Group recognised a right-of-use asset and a lease liability at the date of adoption of HKFR16 (i.e. 1 July 2019).

Right-of-use asset

The right-of-use asset should be recognised at cost and would comprise: (i) the amount of the initial measurement of the lease liability (see below for the accounting policy to account for lease liability); (ii) any lease payments made at or before the commencement date, less any lease incentives received; (iii) any initial direct costs incurred by the lessee and (iv) an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Except for right-of-use asset that meets the definition of an investment property, the Group measures the right-of-use assets applying a cost model. Under the cost model, the Group measures the right-to-use at cost, less any accumulated depreciation and any impairment losses, and adjusted for any remeasurement of lease liability.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 16 (continued)

(i) *Impact of the adoption of HKFRS 16 (continued)*

Accounting as a lessee (continued)

Right-of-use asset (continued)

For the Group, leasehold land and buildings that were held for rental or capital appreciation purpose would continue to be accounted for under HKAS 40 and would be carried at fair value. For leasehold land and buildings which is held for own use would continue to be accounted for under HKAS 16 and would be carried at cost less accumulated depreciation and any impairment loss. The adoption of HKFRS 16 therefore does not have any significant impact on these right-of-use assets. Other than the above right-of-use assets, the Group also has leased a number of properties under tenancy agreements which the Group exercises its judgement and determines that it is a separate class of asset apart from the leasehold land and buildings which is held for own use. As a result, the right-of-use asset arising from the properties under tenancy agreements are carried at depreciated cost.

Lease liability

The lease liability should be recognised at the present value of the lease payments that are not paid at the date of commencement of the lease. The lease payments shall be discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group shall use the Group's incremental borrowing rate.

The following payments for the right-to-use of underlying asset during the lease term that are not paid at the commencement date of the lease are considered to be lease payments: (i) fixed payments less any lease incentives receivable; (ii) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at commencement date; (iii) amounts expected to be payable by the lessee under residual value guarantees; (iv) the exercise price of a purchase option if the lessee is reasonably certain to exercise that option and (v) payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

Subsequent to the commencement date, a lessee shall measure the lease liability by: (i) increasing the carrying amount to reflect interest on the lease liability; (ii) reducing the carrying amount to reflect the lease payments made; and (iii) remeasuring the carrying amount to reflect any reassessment or lease modifications, e.g., a change in future lease payments arising from change in an index or rate, a change in the lease term, a change in the in substance fixed lease payments or a change in assessment to purchase the underlying asset.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(c) Adoption of HKFRS 16 (continued)

(i) Impact of the adoption of HKFRS 16 (continued)

Accounting as a lessor

The Group leased out its investment properties to a number of tenants. As the accounting under HKFRS 16 for a lessor is substantially unchanged from the requirements under HKAS 17, the adoption of HKFRS 16 in relation to accounting for as lessor does not have significant impact on the Group's interim condensed consolidated financial statements.

3. SEGMENT INFORMATION

The Group determines its operating segments based on the reports reviewed by the chief operating decision-maker that are used to assess performance and allocate resources.

The chief operating decision-maker has been identified as the Company's executive directors. The executive directors have identified the Group's four (2018: four) business lines as operating segments under continuing operations.

Certain comparative figures on the measurement of the segment results have been represented to conform to the current period's presentation.

The Group has identified the following reportable segments:

- Design, manufacturing, marketing and trading of fine jewellery and diamonds;
- Property investment and development;
- Mining operation; and
- Investment

Each of these operating segments is managed separately as each of the product and business lines requires different resources as well as marketing approaches. All inter-segment transfers, if any, are carried out at arm's length prices.

	Unaudited									
	Six months ended 31 December									
	Design, manufacturing, marketing and trading of fine jewellery and diamonds		Property Investment and development		Mining operation		Investment		Consolidated	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(represented)						(represented)				
Segment Revenue:										
Sales to/revenue from external parties	276,099	233,266	2,447	1,175	–	–	7,665	10,314	286,211	244,755
Segment results	14,393	6,775	(3,524)	(7,132)	(2,186)	(3,723)	4,175	10,669	12,858	6,589
Unallocated expenses									(3,318)	(2,080)
Finance costs									(3,627)	(2,051)
Profit before income tax									5,913	2,458

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

4. REVENUE

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, 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	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Revenue from contracts with customers		
Sale of goods	276,099	233,266
Revenue from other sources		
Rental income	2,447	1,175
Interest income	5,395	10,152
Dividend income from investments	2,270	162
	<u>286,211</u>	<u>244,755</u>

5. FINANCE COSTS

	Unaudited	
	Six months ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Interest charges on:		
Bank loans	12,815	9,328
Interest expenses on loan from ultimate holding company	–	2,647
Interest on lease liabilities	130	–
Finance charges on obligation under finance leases	–	2
Imputed interest expenses arising from amounts due to related companies	685	721
	<u>13,630</u>	<u>12,698</u>
Total borrowing costs		
Less: Interests capitalised in:		
– investment properties	(8,047)	(9,926)
– property under development	(1,956)	–
	<u>3,627</u>	<u>2,772</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

6. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

	Unaudited	
	Six months ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	208,774	186,163
Depreciation charge		
– Owned property, plant and equipment	804	2,245
– Right-of-use assets included within:		
– Land use rights	655	–
– Leasehold land and buildings	1,250	–
– Payments for leasehold land and buildings held for own use under operating lease	1,308	–
Amortisation of land use rights	–	670
Minimum lease payments for leases previously classified as operating leases under HKAS 17	–	1,650
Lease payments in respect of short-term lease	1,184	–
Provision for inventories*	1,173	2,995
Fair value loss on derivative financial instruments		
– forward currency contracts	106	–
Net foreign exchange (gain)/loss	(2,090)	2,568
Provision for trade receivables	918	648
Write-off of property, plant and equipment	2	29
Loss on disposal of property, plant and equipment	19	–
Gain on disposal of subsidiaries	–	(1,684)
	–	(1,684)

* *Amount included in cost of sales*

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

7. INCOME TAX EXPENSE/(CREDIT)

The amount of income tax expense/(credit) charged to the condensed consolidated statement of profit or loss and other comprehensive income represents:

	Unaudited	
	Six months ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
Current tax		
Hong Kong	37	–
Over-provision in prior years	–	(2)
	<u>37</u>	<u>(2)</u>
Deferred taxation		
People's Republic of China	(35)	(36)
	<u>2</u>	<u>(38)</u>

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong during the period. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

8. DIVIDENDS

- (i) The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2019 (2018: Nil)
- (ii) Dividends to equity shareholders attributable to previous financial year, approved and payable during the interim period:

	Unaudited	
	Six months ended 31 December	
	2019	2018
	HK\$'000	HK\$'000
Final dividend in respect of the year ended 30 June 2019, approved and payable, of HK0.25 cent per share (six months ended 31 December 2018: for the financial year ended 30 June 2018: HK0.5 cent per share)	<u>17,078</u>	<u>34,156</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

9. EARNINGS PER SHARE

The calculations of basic and diluted earnings per share attributable to the owners of the Company are based on the following data:

	Unaudited	
	Six months ended 31 December	
	2019	2018
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to the owners of the Company	6,788	2,498
	2019	2018
	Number of shares	
Weighted average number of ordinary shares for the purpose of basic earnings per share	6,831,182,580	6,831,182,580
Effect of dilutive potential ordinary shares in respect of share options	—	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	6,831,182,580	6,831,182,580

The calculation of basic earnings per share attributable to the owners of the Company for the six months ended 31 December 2019 is based on the profit attributable to the owners of the Company of HK\$6,788,000 (2018: HK\$2,498,000) and on the weighted average number of 6,831,182,580 (2018: 6,831,182,580) ordinary shares in issue during the period.

For the six months ended 31 December 2019 and 2018, the computation of diluted earnings per share does not assume the exercise of share options as they were anti-dilutive.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

10. INVESTMENT PROPERTIES

	Unaudited	Audited
	At	At
	31 December	30 June
	2019	2019
	HK\$'000	HK\$'000
Opening carrying amount	1,511,200	1,308,400
Additions	7,700	18,952
Interests capitalised (<i>note 5</i>)	8,047	17,416
Net gain from fair value adjustments	–	37,432
Acquisition of subsidiaries	–	129,000
	<hr/>	<hr/>
Closing carrying amount	1,526,947	1,511,200
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2019, the Group's investment properties with a carrying amount of HK\$1,526,947,000 (30 June 2019: HK\$1,511,200,000) was pledged to secure certain bank borrowings granted to the Group.

11. PROPERTY UNDER DEVELOPMENT

	Unaudited	Audited
	At	At
	31 December	30 June
	2019	2019
	HK\$'000	HK\$'000
Opening carrying amount	301,662	–
Acquisition of subsidiaries	–	295,680
Additions	3,819	4,861
Interests capitalised (<i>note 5</i>)	1,956	1,121
	<hr/>	<hr/>
Closing carrying amount	307,437	301,662
	<hr/> <hr/>	<hr/> <hr/>

As at 31 December 2019, property under development amounting to approximately HK\$307,437,000 (30 June 2019: HK\$301,662,000) was not expected to be realised within the next twelve months from the end of the reporting date.

As at 31 December 2019, the Group's property under development with aggregate net carrying amounts of approximately HK\$307,437,000 (30 June 2019: HK\$301,662,000) were pledged to secure general banking facilities granted to the Group.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

12. TRADE RECEIVABLES

The Group normally grants credit terms to its customers according to industry practice together with consideration of their creditability, 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.

An ageing analysis of trade receivables, net of provision, as at the reporting 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 31 December 2019	23,364	36,223	29,043	68,717	157,347
Audited balance at 30 June 2019	23,612	24,476	25,771	41,022	114,881

13. TRADE PAYABLES

An ageing analysis of the trade payables as at the reporting date, based on the invoice dates, 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 31 December 2019	22,864	14,428	14,481	33,606	85,379
Audited balance at 30 June 2019	21,156	12,566	5,736	24,601	64,059

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

14. ACQUISITION OF SUBSIDIARIES

On 6 May 2019, the Group had entered into a stock purchase agreement (the “SP Agreement”) with independent third parties relating to acquisition of 85% of the shareholding in two US jewellery companies, at a total consideration of US\$5,100,000 (equivalent to approximately HK\$39,829,000) in accordance with the terms of the SP Agreement (the “Novell Acquisition”). The Novell Acquisition constitutes a major transaction for the Company and has been completed on 7 August 2019.

The identifiable assets and liabilities acquired was recognised at the date of acquisition as follows:

	Unaudited At 31 December 2019 HK\$'000
Net assets acquired	
Property, plant and equipment	1,436
Payments for leasehold land and buildings held for own use under operatings lease	14,899
Intangible assets	8,292
Inventories	56,809
Trade receivables	18,351
Prepayments, deposits and other receivables	2,729
Amount due to related parties	343
Cash and cash equivalents	23
Other payables and accruals	(22,422)
Lease liabilities	(13,665)
Bank loan	(29,071)
Deferred tax liabilities	(424)
	<hr/>
	37,300
Less: Non-controlling interest of the subsidiaries	(5,595)
	<hr/>
	31,705
	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (CONTINUED)

14. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Goodwill arising on acquisition

	Unaudited At 31 December 2019 HK\$'000
Consideration	39,829
Add: Non-controlling interests	5,595
Less: Net assets acquired	<u>(37,300)</u>
	<u>8,124</u>
Net cash outflow in connection with acquisition of subsidiaries:	
Consideration paid	39,829
Cash and cash equivalent balance acquired	<u>(23)</u>
	<u>39,806</u>

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING RESULTS

The Group's consolidated revenue for the six months ended 31 December 2019 recorded an increase of approximately HK\$41,456,000 or 16.9% from HK\$244,755,000 for last interim period to HK\$286,211,000. During the period under review, profit attributable to owners of the Company was HK\$6,788,000, as compared to last interim profit of HK\$2,498,000. Such increase in profit was mainly attributable to the increase of revenue in the jewellery segment and overall gross profit margins recorded an increment of 3.2% from 23.9% for last interim to 27.1%. For the six months ended 31 December 2019, basic earnings per share was HK 0.1 cent (2018: HK0.04 cent).

BUSINESS REVIEW AND PROSPECTS

In the period under review, the global economic outlook remained gloomy as the trade tensions between China and the United States continued to be an ongoing concern to businesses. Consumer spending in the luxury sector remained moderate as the political climate and market uncertainty have loomed over the worldwide economies.

For the jewellery segment, as attributed to the acquisitions in the United States and the strategic investment and expansion in the United Kingdom, the Group recorded an increase in revenue of approximately HK\$42,833,000 or 18.4% from HK\$233,266,000 for the six months ended 31 December 2018 to HK\$276,099,000 for the corresponding period in 2019. Both new companies have increased our customer base and product offering, as a result of boosting our overall jewellery business performance. The jewellery industry is undergoing a major consolidation and it will require the Group to maximize our efficiencies which enhancing our products and services in order to stay atop in the industry. Meanwhile, by focusing on cost efficiencies and improvement on product quality, the performance of jewellery segment has increased from HK\$6,775,000 for the six months ended 31 December 2018 to HK\$14,393,000 for the corresponding period in 2019. We will continue to strive for stringent cost controls while deploying more resources in sales and marketing to strengthen our market positioning in the industry. Though the results have been promising this interim, we foresee a challenging period ahead with great uncertainties worldwide.

In the property investment and development segment, the Group holds 75% of the interests in a piece of land located at No. 232 Wan Chai Road, Hong Kong with a site area of approximately 5,798 sq. ft. The Group shall redevelop the land into a premium grade office and retail composite building of approximately 26-storey tall with a gross floor area of approximately 86,970 sq. ft. and to hold it for long term leasing investment purpose. The foundation work has been completed in September 2019 and the superstructure work has commenced in October 2019. The project is in good progress and is expected to be completed in 2021.

The Group also owns 90% interests of sites at Nos. 7, 7A, 9, and 9A of Cheung Wah Street, Cheung Sha Wan, with a site area of approximately 3,288 sq. ft. The plan is to redevelop the existing buildings into a 25-storey residential development with 2-storey of retail podium, with a proposed gross floor area of approximately 29,592 sq. ft. The demolition of the existing building has been completed in July 2019, and foundation works have commenced in September 2019. The expected completion date of the redevelopment is around the second quarter of 2022.

To further broaden the property portfolio, in 2018 the Group has acquired 12 floors of Glassview Commercial Building at 65 Castle Peak Road, Yuen Long, New Territories (the “Yuen Long Properties”) at a total consideration of HK\$129,000,000, with a gross floor area of approximately 14,508 sq. ft. During this period, the Group has enhanced the rental yield by renewing leases with increased rental, and by re-tenanting the properties to strengthen the tenant mix. The Yuen Long Properties are currently fully let and are generating a stable rental income to the Group’s revenue.

In May 2019, the Group has invested a total amount of HK\$18,000,000 into a real estate investment fund, Metropolitan Opportunity Fund SPC (the “Fund”), focusing on identifying underperforming assets and repositioning them into boutique style serviced residences and offices across multiple asset classes.

For our mining business, operation at Hongzhuang Gold Mine was minimised. The Company focuses on the exploration at the north eastern of Yuanling. Meanwhile, we will continue developing new shaft and re-visiting the old shaft in the Yuanling mine site.

PROSPECTS

Entering 2020, we expect more market volatility in view of the continual trade tensions between China and the United States, and from the uncertainties arising from Brexit. The impact of the coronavirus (COVID-19) epidemic will also affect a significant amount of businesses worldwide. These factors will likely impact the consumer demand and spending, especially on the luxury segment. We foresee the year ahead will be extremely difficult with both local and overseas factors pressuring on all our business segments. Nevertheless, we will continue to implement appropriate business strategies and resources to improve our results and deliver better return and value to our shareholders.

INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2019 (2018: Nil).

LIQUIDITY, FINANCIAL RESOURCES AND GEARING

As at 31 December 2019, the Group's gearing ratio was 0.1006 (30 June 2019: 0.0692), which is calculated on net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank borrowings and other borrowings less cash and cash equivalents. The cash and cash equivalents of HK\$547,336,000 (30 June 2019: HK\$621,380,000) which were mainly denominated in Hong Kong Dollar, US Dollar, Renminbi and British Pound. Bank loans were HK\$757,917,000 (30 June 2019: HK\$743,575,000), which were denominated in Hong Kong Dollar and US Dollar. Other borrowings in respect of amounts due to related companies, loan from a controlling shareholder and amount due to a non-controlling interest were approximately of HK\$58,676,000 (30 June 2019: HK\$57,889,000). The bank loans are secured by first legal charges over the Group's investment properties, certain leasehold land and buildings, land use rights, property under development, inventories, trade receivables, pledged by ordinary shares of certain indirectly owned subsidiaries of the Company and guaranteed by corporate guarantees executed by the Company.

The decrease in the Group's cash and cash equivalents as at 31 December 2019 was mainly due to the acquisition of two US companies. In line with the Group's prudent financial management, the Directors considered that the Group has sufficient working capital to meet its ongoing operational requirements.

PLEDGE OF ASSETS

As of 31 December 2019, the Group's investment properties, certain leasehold land and buildings, land use rights, property under development, inventories and trade receivables with an aggregate carrying value of approximately HK\$1,874,310,000 (30 June 2019: HK\$1,823,879,000) were pledged to certain banks to secure general banking facilities granted to the Group.

CONTINGENT LIABILITIES

As at 31 December 2019, the Company has provided guarantees to the extent of HK\$623,792,000 (30 June 2019: HK\$611,275,000) with respect to bank loans to its subsidiaries. Under the guarantees, the Company would be liable to pay the banks if the banks are unable to recover the loans. At the reporting date, no provision for the Company's obligation under the guarantee contracts has been made as the directors considered that it was unlikely the repayment of the loans would be in default.

CAPITAL STRUCTURE

All the Group's borrowings are denominated in Hong Kong Dollar, US Dollar and Renminbi. Interest is determined with reference to the Hong Kong Interbank Offered Rate or Prime Rate for Hong Kong Dollar borrowings, London Interbank Offered Rate for US Dollar borrowings and the benchmark lending rate of the People's Bank of China for Renminbi borrowings. The Group also made use of foreign exchange forward contracts in order to minimise exchange rate risk as a result of the fluctuation in British Pound. There was no change to the Group's capital structure during the six months ended 31 December 2019. In light of the current financial position of the Group and provided that there is no unforeseeable circumstance, the management does not anticipate the need to change the capital structure.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEME

As at 31 December 2019, the Group employed a total of approximately 677 employees (30 June 2019: 664) with the majority in the PRC. The Group's remuneration to its employees is largely based on common industrial practice. The Company has adopted a share option scheme on 13 July 2010, under which, the Company may grant options to eligible persons including directors and employees. As at 31 December 2019, 120,000,000 share options were granted pursuant to the scheme since its adoption.

EXPOSURE TO FINANCIAL RISK AND RELATED HEDGES

The Group utilises conservative strategies on its financial risk management and the market risk had been kept to a minimum. With the exception of the UK subsidiaries, all transactions and the borrowings of the Group are primarily denominated in US Dollar, Hong Kong Dollar and Renminbi. During the period, the Group had entered into foreign exchange forward contract in order to minimise the exchange rate risk as a result of fluctuation in British pound. Management will continue to monitor the foreign exchange risk in British Pound and recent fluctuation in Renminbi and will take appropriate actions when necessary.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 31 December 2019.

CORPORATE GOVERNANCE PRACTICES

The Company adopted all the Code Provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Listing Rules and has complied with all the applicable Code Provisions throughout the six months ended 31 December 2019 except for the following deviations:

1. Code Provision A.2.1

Code Provision A.2.1 provides that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual.

During the period, Mr. Chan Wai Lap, Victor (“Mr. Victor Chan”) was the Chairman of the Board. Mr. Victor Chan oversaw the direction of the Group and also provided leadership for the Board. He ensured that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. Mr. Victor Chan was also responsible to ensure that all directors were properly briefed on issues arising at Board meetings and that all directors received adequate information, which must be complete and reliable, in a timely manner.

Ms. Cheng Siu Yin, Shirley (“Ms. Cheng”), mother of Mr. Victor Chan, is the Managing Director of the Company. She is responsible for the day-to-day management and marketing activities of the Group.

Although the Company does not have a post of Chief Executive Officer, the Board considers that there is adequate segregation of duties within the Board to ensure a balance of power and authority.

2. Code Provision A.4.1

Code Provision A.4.1 provides that non-executive directors should be appointed for a specific term, subject to re-election.

Independent Non-executive Directors of the Company do not have a specific term of appointment but are subject to retirement by rotation and re-election at the Company’s Annual General Meeting (the “AGM”) at least once every three years in accordance with articles 115(A) and 115(D) of the Articles of Association of the Company. The Board considers that the deviation from Code Provision A.4.1 is not material as non-executive directors are subjected to retirement by rotation at least once in every three years and re-election.

3. *Code Provision C.2.5*

Code Provision C.2.5 provides that the issuer should have an internal audit function. Issuers without an internal audit function should review the need for one on an annual basis and should disclose the reasons for the absence of such a function.

The Company does not have an internal audit function during the six months ended 31 December 2019. Taking into account the size and complexity of the operations of the Group, the Company considers that the existing organisation structure and the close supervision of the management could provide sufficient internal control and risk management for the Group. The audit committee of the Board regularly reviews the effectiveness of the internal control systems and risk management of the Group. The Board would review the need to set up an internal audit function on an annual basis.

Save as disclosed above, the Company considers that sufficient measures have been taken to ensure that the corporate governance practices of the Company are in line with the Code Provisions.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors of the Company. The Company has made specific enquiry with all directors and all of them have confirmed that they have complied with the required standards as set out in the Model Code during the six months ended 31 December 2019.

AUDIT COMMITTEE

The Audit Committee of the Company comprises four independent non-executive directors of the Company.

The Audit Committee has discussed the Group’s accounting policies and basis adopted, the financial control, risk management and internal control systems of the Group and has reviewed the unaudited consolidated interim financial statements for the six months ended 31 December 2019. The Audit Committee has approved the unaudited consolidated interim financial statements.

On behalf of the Board
Continental Holdings Limited
Chan Wai Lap, Victor
Chairman

Hong Kong, 25 February 2020

As at the date of this announcement, Mr. Chan Wai Lap, Victor, Dr. Chan Sing Chuk, Charles, BBS, JP, Ms. Cheng Siu Yin, Shirley, Ms. Chan Wai Kei, Vicki and Mr. Wong Edward Gwon-hing are Executive Directors, Mr. Yam Tat Wing is a Non-executive Director and Mr. Yu Shiu Tin, Paul, BBS, MBE, JP, Mr. Chan Ping Kuen, Derek, Mr. Sze Irons, BBS, JP and Mr. Cheung Chi Fai, Frank are Independent Non-executive Directors.