



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

INTERIM REPORT 2006
二 零 零 六 年 中 期 報 告

(Stock Code: 0513)
(股份代號: 0513)

Contents

Pages

| | |
|---|-------|
| Condensed consolidated income statement | 2 |
| Condensed consolidated balance sheet | 3–4 |
| Condensed consolidated cash flow statement | 5 |
| Condensed consolidated statement of changes in equity | 6 |
| Notes to the condensed interim accounts | 7–15 |
| Management commentary and other information | 16–18 |

The board (the “Board”) of directors (the “Directors”) of Continental Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2005 together with the comparative figures for the corresponding period in 2004.

CONDENSED CONSOLIDATED INCOME STATEMENT

| | | Unaudited | |
|---|--------------|---------------------------|--------------------|
| | | Six months ended | |
| | | 31st December | |
| | | 2005 | 2004 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | | <i>(Restated)</i> |
| Turnover | 3 | 833,810 | 706,926 |
| Cost of sales | | (758,064) | (645,562) |
| Gross profit | | 75,746 | 61,364 |
| Selling and distribution costs | | (15,809) | (14,702) |
| Administrative expenses | | (30,772) | (25,721) |
| Other income | | 201 | 1,097 |
| Operating profit | | 29,366 | 22,038 |
| Finance costs | 4 | (8,606) | (796) |
| Share of profits less losses of associates | | (302) | 714 |
| Share of profits of a jointly controlled entity | | 559 | – |
| Other non-operating expenses | | – | (706) |
| Profit before taxation | 5 | 21,017 | 21,250 |
| Taxation | 6 | (2,963) | (3,721) |
| Profit for the period | | <u>18,054</u> | <u>17,529</u> |
| Attributable to: | | | |
| Equity holders of the Company | | 15,854 | 17,078 |
| Minority interests | | 2,200 | 451 |
| | | <u>18,054</u> | <u>17,529</u> |
| Interim dividends | 7 | <u>2,798</u> | <u>2,798</u> |
| Earnings per share | 8 | | |
| – Basic | | <u>HK5.7 cents</u> | <u>HK6.1 cents</u> |
| – Diluted | | <u>N/A</u> | <u>N/A</u> |

CONDENSED CONSOLIDATED BALANCE SHEET

| | Unaudited | Audited |
|---|-------------------------|------------------------|
| | At 31st December | At 30th June |
| | 2005 | 2005 |
| <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| ASSETS AND LIABILITIES | | |
| Non-current assets | | |
| Property, plant and equipment | 69,962 | 67,967 |
| Investment properties | 605,500 | 605,500 |
| Investments in associates | 7,930 | 8,304 |
| Interests in jointly controlled entities | 96,671 | 89,612 |
| Investment securities | – | 13,988 |
| Long-term investments | 18,878 | – |
| Long-term receivables | 17,464 | 18,517 |
| Deferred tax assets | 16,408 | 16,408 |
| | 832,813 | 820,296 |
| Current assets | | |
| Inventories | 319,542 | 335,888 |
| Trade receivables | 9 191,702 | 126,259 |
| Prepayments, deposits and other receivables | 46,223 | 34,606 |
| Investment securities | – | 2,100 |
| Current portion of long term receivables | 3,643 | 3,643 |
| Other investments | – | 29,587 |
| Financial assets at fair value through profit or loss | 20,092 | – |
| Due from an associate | 4,318 | 5,244 |
| Due from a jointly controlled entity | – | 18 |
| Cash and bank balances | 60,326 | 32,339 |
| | 645,846 | 569,684 |
| Current liabilities | | |
| Trade payables | 10 (229,543) | (234,753) |
| Accruals and other payables | (50,149) | (47,139) |
| Tax payable | (20,737) | (26,666) |
| Due to a jointly controlled entity | (115) | – |
| Due to an associate | (376) | (764) |
| Bank loans and overdrafts, secured | 11 (166,156) | (22,704) |
| | (467,076) | (332,026) |
| Net current assets | 178,770 | 237,658 |
| Total assets less current liabilities | 1,011,583 | 1,057,954 |
| Non-current liabilities | | |
| Loans from minority shareholders | (48,625) | (51,872) |
| Deferred tax liabilities | (24,696) | (24,696) |
| Bank loans, secured | 11 (224,250) | (283,215) |
| | (297,571) | (359,783) |
| Net assets | 714,012 | 698,171 |

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

| | | Unaudited | Audited |
|---|--------------|-------------------------|------------------------|
| | | At 31st December | At 30th June |
| | | 2005 | 2005 |
| | <i>Notes</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| EQUITY | | | |
| Equity attributable to equity holders of the Company | | | |
| Issued capital | 12 | 27,980 | 27,980 |
| Reserves | | 642,724 | 626,285 |
| Proposed interim/final dividend | | 2,798 | 5,596 |
| | | <hr/> | <hr/> |
| | | 673,502 | 659,861 |
| Minority interests | | 40,510 | 38,310 |
| | | <hr/> | <hr/> |
| Total equity | | <u>714,012</u> | <u>698,171</u> |

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

| | Unaudited | |
|---|-------------------------|------------------------|
| | Six months ended | |
| | 31st December | |
| | 2005 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Net cash (used in)/inflow from operating activities | (51,508) | 6,451 |
| Net cash outflow from investing activities | (2,208) | (79,558) |
| Net cash inflow from financing activities | 81,869 | 66,298 |
| | <hr/> | <hr/> |
| Increase/(Decrease) in cash and cash equivalents | 28,153 | (6,809) |
| Cash and cash equivalents at 1st July | 29,861 | 48,762 |
| Effect of foreign exchange rate changes, net | 463 | (519) |
| | <hr/> | <hr/> |
| Cash and cash equivalents at 31st December | <u>58,477</u> | <u>41,434</u> |
| Analysis of balances of cash and cash equivalents: | | |
| Cash and bank balances | 60,326 | 52,265 |
| Bank loans and overdrafts | (1,849) | (10,831) |
| | <hr/> | <hr/> |
| | <u>58,477</u> | <u>41,434</u> |

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Equity attributable to equity holders of the Company | | | | | | | | Minority interests | Total (Unaudited) HK\$'000 |
|--|--|--|--|--|---|---|---|---|-------------------------|----------------------------------|
| | Share capital (Unaudited) HK\$'000 | Share premium account (Unaudited) HK\$'000 | Non-distributable reserve (Unaudited) HK\$'000 | Investment properties revaluation reserve (Unaudited) HK\$'000 | Exchange fluctuation reserve (Unaudited) HK\$'000 | Fair value reserve (Unaudited) HK\$'000 | Retained profits (Unaudited) HK\$'000 | Proposed Dividends (Unaudited) HK\$'000 | (Unaudited) HK\$'000 | |
| | | | | | | | | | | |
| At 1st July 2005, as previously reported as equity | 27,980 | 158,373 | 273,606 | – | 745 | – | 193,561 | 5,596 | – | 659,861 |
| At 1st July 2005, as previously reported as minority interest | – | – | – | – | – | – | – | – | 38,310 | 38,310 |
| | 27,980 | 158,373 | 273,606 | – | 745 | – | 193,561 | 5,596 | 38,310 | 698,171 |
| Opening adjustment upon adoption of HKAS 39 | – | – | – | – | – | 3,155 | – | – | – | 3,155 |
| At 1st July 2005, as restated | 27,980 | 158,373 | 273,606 | – | 745 | 3,155 | 193,561 | 5,596 | 38,310 | 701,326 |
| Exchange differences on translation of the accounts of foreign subsidiaries and associates | – | – | – | – | 507 | – | – | – | – | 507 |
| Change in fair value of long term investments | – | – | – | – | – | (279) | – | – | – | (279) |
| Net income/(expense) recognised directly in equity | – | – | – | – | 507 | (279) | – | – | – | 228 |
| Profit for the period | – | – | – | – | – | – | 15,854 | – | 2,200 | 18,054 |
| Payment of final 2005 dividend | – | – | – | – | – | – | – | (5,596) | – | (5,596) |
| Interim dividend, proposed | – | – | – | – | – | – | (2,798) | 2,798 | – | – |
| At 31st December 2005 | <u>27,980</u> | <u>158,373</u> | <u>273,606</u> | <u>–</u> | <u>1,252</u> | <u>2,876</u> | <u>206,617</u> | <u>2,798</u> | <u>40,510</u> | <u>714,012</u> |
| At 1st July 2004, as previously reported as equity | 27,980 | 158,373 | 273,606 | 53,708 | 698 | – | 106,991 | 2,798 | – | 624,154 |
| At 1st July 2004, as previously reported as minority interest | – | – | – | – | – | – | – | – | 4,191 | 4,191 |
| | 27,980 | 158,373 | 273,606 | 53,708 | 698 | – | 106,991 | 2,798 | 4,191 | 628,345 |
| Effect of changes in accounting policy upon early adoption of HKAS 40 and HKAS Int-21 | – | – | – | (53,708) | – | – | 45,145 | – | – | (8,563) |
| As restated | 27,980 | 158,373 | 273,606 | – | 698 | – | 152,136 | 2,798 | 4,191 | 619,782 |
| Exchange differences on translation of the accounts of foreign subsidiaries and associates | – | – | – | – | (610) | – | – | – | – | (610) |
| Net expense recognised directly in equity | – | – | – | – | (610) | – | – | – | – | (610) |
| Net profit for the period | – | – | – | – | – | – | 17,078 | – | 451 | 17,529 |
| Final 2004 dividend | – | – | – | – | – | – | – | (2,798) | – | (2,798) |
| Interim dividend, proposed | – | – | – | – | – | – | (2,798) | 2,798 | – | – |
| At 31st December 2004 | <u>27,980</u> | <u>158,373</u> | <u>273,606</u> | <u>–</u> | <u>88</u> | <u>–</u> | <u>166,416</u> | <u>2,798</u> | <u>4,642</u> | <u>633,903</u> |

NOTES TO CONDENSED INTERIM ACCOUNTS

1. Accounting policies

These 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 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The condensed interim financial statements have been prepared under the historical cost basis except for the revaluation of the investment properties and certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual accounts for the year ended 30th June 2005 except as described below:

From 1st July 2005, the Group has adopted the new/revised standards and interpretations of Hong Kong Financial Reporting Standard (“HKFRS”), which are relevant to its operations. This includes the following new, revised and renamed standards:

| | |
|-------------|---|
| HKAS 1 | Presentation of Financial Statements |
| HKAS 2 | Inventories |
| HKAS 7 | Cash Flow Statements |
| HKAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors |
| HKAS 10 | Events after the Balance Sheet Date |
| HKAS 14 | Segment Reporting |
| HKAS 16 | Property, Plant and Equipment |
| HKAS 17 | Leases |
| HKAS 21 | The Effects of Changes in Foreign Exchange Rates |
| HKAS 23 | Borrowing Costs |
| HKAS 24 | Related Party Disclosures |
| HKAS 27 | Consolidated and Separated Financial Statements |
| HKAS 28 | Investments in Associates |
| HKAS 31 | Investments in Joint Ventures |
| HKAS 32 | Financial Instruments: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 37 | Provisions, Contingent Liabilities and Contingent Assets |
| HKAS 38 | Intangible Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKFRS 2 | Share-based Payments |
| HKFRS 3 | Business Combinations |
| HKAS Int-12 | Consolidation-Special Purpose Entities |
| HKAS Int-15 | Operating Leases-Incentives |

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2004 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2004 comparatives contained in these financial statements differ from those published in the interim report for the six months ended 31st December 2004.

1. Accounting policies (Continued)

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

1.1 Adoption of HKAS 1

The application of HKAS 1 led to an update of the presentation of financial statements. Minority interests are now included as a separate line item within equity. Profit and loss attributable to minority interests and that attributable to owners of the parent company is now presented as an allocation of the net result of the year. Share of profits less losses of associates now included the Group's share of taxes of associates.

1.2 Adoption of HKAS 36, HKAS 38 and HKFRS 3

These standards stipulate a prospective change to the accounting policies.

In respect of goodwill previously eliminated against or credited to reserves, HKFRS 3 does not require entities to recognise that goodwill in profit or loss when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. Moreover, the Group is not required nor permitted to restate goodwill previously eliminated against reserves.

1.3 Adoption of HKAS 32 and HKAS 39

Prior to the adoption of HKAS 39, the Group has recorded its non-trading securities as investment securities at cost less any provision for impairment losses and other investments in equity securities or unit funds held for trading purposes at fair values with changes in value being recognised in the income statement as they arise.

On the adoption of HKAS 39, the Group recorded its non-trading securities as long-term investments and securities or unit funds held for trading purposes as financial assets at fair value through profit or loss. The long-term investments are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognised in equity, net of any effects arising from income taxes. Gains and losses arising from long-term investments are recognised in the income statement when they are sold or when the investments are impaired. The financial assets at fair value through profit or loss are measured at fair value with changes in fair value recognised in income statement.

In accordance with the transitional provisions of HKAS 39, it does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of retained earnings on 1 July 2005 and the comparative figures have not been restated.

1.4 Other standards adopted

The adoption of other standards did not result in significant alterations to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any significant changes to the amounts or disclosures in these financial statements.

As disclosed in the annual report for the year ended 30th June 2005, the Group has early adopted HKAS 40 and HKAS Int 21. The results for the six months ended 31st December 2004 have been restated accordingly.

1. Accounting policies (Continued)

1.5 The effect of changes in the accounting policies on condensed consolidated balance sheet:

| | HKAS 32 [#] & HKAS 39* HK\$'000 | Total HK\$'000 |
|---------------------------|---|-------------------|
| At 1st July 2005 | | |
| Increase in assets | | |
| Long-term investments | <u>3,155</u> | <u>3,155</u> |
| Increase in equity | | |
| Retained earnings | <u>3,155</u> | <u>3,155</u> |
| At 31st December 2005 | | |
| Increase in assets | | |
| Long-term investments | <u>2,876</u> | <u>2,876</u> |
| Increase in equity | | |
| Retained earnings | <u>2,876</u> | <u>2,876</u> |

* adjustments which take effect prospectively from 1 July 2005

adjustments which take effect retrospectively

2. Segment Information

According to HKAS 14, segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by business segment; and (ii) on a secondary segment reporting basis, by geographical segment.

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

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

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

2. Segment Information (Continued)

(a) Business segment

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

| | For the six months ended 31 December | | | | | | | |
|--|--|--------------------|--|--------------------|-----------------------|--------------------|-------------------------------------|----------------|
| | Property Investment and development | | Manufacturing and trading of jewellery and diamond | | Investment and others | | Consolidated Total | |
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> |
| <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited and restated)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited and restated)</i> | |
| Segment revenue: | | | | | | | | |
| Sales to external customers | 16,643 | 3,202 | 814,604 | 701,365 | 855 | 1,409 | 832,102 | 705,976 |
| Others | - | - | - | - | 1,708 | 950 | 1,708 | 950 |
| | <u>16,643</u> | <u>3,202</u> | <u>814,604</u> | <u>701,365</u> | <u>2,563</u> | <u>2,359</u> | <u>833,810</u> | <u>706,926</u> |
| Segment results | <u>13,670</u> | <u>493</u> | <u>15,695</u> | <u>17,268</u> | <u>938</u> | <u>5,238</u> | <u>30,303</u> | <u>22,999</u> |
| Unallocated expenses | | | | | | | (937) | (961) |
| Profit from operating activities | | | | | | | 29,366 | 22,038 |
| Finance costs | (6,934) | (430) | (1,672) | (366) | - | - | (8,606) | (796) |
| Share of profits less losses of associates | - | - | (302) | 714 | - | - | (302) | 714 |
| Share of profits of a jointly controlled entity | 559 | - | - | - | - | - | 559 | - |
| Other non-operating expenses | - | - | - | (706) | - | - | - | (706) |
| Profit before taxation | | | | | | | <u>21,017</u> | <u>21,250</u> |

(b) Geographical segment

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

| | North America | | Europe | | Hong Kong | | Other areas | | Consolidated Total | |
|-----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 | 2005 | 2004 |
| | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> | <i>HKS'000</i> |
| | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> | <i>(Unaudited)</i> |
| Segment revenue: | | | | | | | | | | |
| Sales to external customers | 372,201 | 312,585 | 343,260 | 281,970 | 107,817 | 105,583 | 8,824 | 5,838 | 832,102 | 705,976 |
| Others | - | - | - | - | 1,708 | 950 | - | - | 1,708 | 950 |
| | | | | | | | | | <u>833,810</u> | <u>706,926</u> |

3. Turnover

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 turnover is as follows:

| | Unaudited Six months ended 31st December | |
|----------------------------------|--|----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Sale of goods | 815,459 | 702,774 |
| Gross rental income | 16,643 | 3,202 |
| Interest income | 1,413 | 752 |
| Dividend income from investments | 295 | 198 |
| | <u>833,810</u> | <u>706,926</u> |

4. Finance costs

| | Unaudited Six months ended 31st December | |
|--|--|------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Interest expenses on bank loans and overdrafts wholly repayable within five years | 3,078 | 366 |
| Interest expenses on bank loans repayable over five years | 5,528 | 430 |
| | <u>8,606</u> | <u>796</u> |

5. Profit before taxation

Profit before taxation is stated after charging/(crediting):

| | Unaudited Six months ended 31st December | |
|--|--|----------------|
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| Cost of inventories sold | 758,064 | 645,562 |
| Realised and unrealised gains on other investments | – | (4,362) |
| Fair value gains on financial assets at fair value through profit or loss | (201) | – |
| Depreciation of property, plant and equipment | 4,387 | 4,950 |
| Amortisation of goodwill on acquisition of an associate | – | 706 |
| Operating leases – land and buildings | 2,069 | 2,023 |
| Provision for bad and doubtful debts | 1,031 | 1,708 |
| | <u>765,330</u> | <u>651,587</u> |

6. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period. Taxation on overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the jurisdictions in which the Group operates.

The amount of taxation charged to the condensed consolidated income statement represents:

| | Unaudited | |
|-----------------------|-------------------------|---------------------|
| | Six months ended | |
| | 31st December | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| | | <i>(Restated)</i> |
| Hong Kong profits tax | | |
| – current | 2,963 | 3,369 |
| Overseas taxation | – | 352 |
| | <u>2,963</u> | <u>3,721</u> |

7. Dividends

| | Unaudited | |
|---|-------------------------|---------------------|
| | Six months ended | |
| | 31st December | |
| | 2005 | 2004 |
| | HK\$'000 | HK\$'000 |
| 2005 final paid – HK\$0.02 (2004 final paid: HK\$0.01) per ordinary share | <u>5,596</u> | <u>2,798</u> |
| 2006 Interim, proposed on 17th March 2006, of HK\$0.01 (2005: HK\$0.01) per ordinary share | <u>2,798</u> | <u>2,798</u> |

8. Earnings per share

The calculation of earnings per share is based on the Group's profit attributable to equity holders of the Company of HK\$15,854,000 (2004: HK\$17,078,000) and the weighted average number of 279,800,031 (2004: 279,800,031) ordinary shares in issue during the period.

No fully diluted earnings per share is shown as the Company has no potential dilutive ordinary shares at 31st December 2005 and 2004.

9. Trade receivables

The Group normally applies 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 | 31-60 | 61-90 | Over | Total |
|---|---------------|---------------|---------------|---------------|----------------|
| | HK\$ '000 | days | days | 90 days | HK\$ '000 |
| | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 |
| Unaudited balance at 31st December 2005 | <u>75,189</u> | <u>49,660</u> | <u>42,860</u> | <u>23,993</u> | <u>191,702</u> |
| Audited balance at 30th June 2005 | <u>35,849</u> | <u>26,602</u> | <u>20,856</u> | <u>42,952</u> | <u>126,259</u> |

10. Trade payables

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

| | Current | 31-60 | 61-90 | Over | Total |
|---|----------------|---------------|---------------|---------------|----------------|
| | HK\$ '000 | days | days | 90 days | HK\$ '000 |
| | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 | HK\$ '000 |
| Unaudited balance at 31st December 2005 | <u>121,353</u> | <u>33,802</u> | <u>23,340</u> | <u>51,048</u> | <u>229,543</u> |
| Audited balance at 30th June 2005 | <u>76,508</u> | <u>71,629</u> | <u>53,623</u> | <u>32,993</u> | <u>234,753</u> |

11. Bank loans and overdrafts, secured

At 31st December 2005, the Group's bank loans and overdrafts are as follows:

| | Unaudited 31st December 2005 HK\$ '000 | Audited 30th June 2005 HK\$ '000 |
|--|---|---|
| Bank overdrafts, secured | <u>1,849</u> | <u>2,478</u> |
| Secured bank loan: | | |
| Repayable within one year | 164,307 | 20,226 |
| Repayable in the second year | 17,250 | 22,636 |
| Repayable in the third to fifth years, inclusive | 51,750 | 67,905 |
| Repayable beyond five years | <u>155,250</u> | <u>192,674</u> |
| | <u>388,557</u> | <u>303,441</u> |
| | 390,406 | 305,919 |
| Less: Current portion due within one year included under current liabilities (Note) | <u>(166,156)</u> | <u>(22,704)</u> |
| Non-current portion included under non-current liabilities | <u>224,250</u> | <u>283,215</u> |

Note: Please refer to the section "Liquidity and financial resources" on page 16 for further details.

11. Bank loans and overdrafts, secured (Continued)

At 31st December 2005, the Group's banking facilities were supported by the following:

- (a) assignment of rental income of certain investment properties;
- (b) legal charges over the Group's investment properties and certain leasehold land and buildings;
- (c) corporate guarantees executed by the Company; and
- (d) personal guarantee executed by Mr. Chan Sing Chuk, Charles ("Mr. Chan"), an executive director of the Company, to the extent of HK\$108,675,000.

12. Share capital

| | Unaudited 31st December 2005 HK\$'000 | Audited 30th June 2005 HK\$'000 |
|--|--|--|
| Authorised: 3,500,000,000 ordinary shares of HK\$0.10 each | <u>350,000</u> | <u>350,000</u> |
| Issued and fully paid: 279,800,031 ordinary shares of HK\$0.10 each | <u>27,980</u> | <u>27,980</u> |

13. Operating lease arrangements

(a) *As lessor*

The Group leases certain of its properties under operating lease arrangements, with leases negotiated for terms ranging from two to six years.

At 31st December 2005, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| | Unaudited 31st December 2005 HK\$'000 | Audited 30th June 2005 HK\$'000 |
|---|--|--|
| Within one year | 26,907 | 30,433 |
| In the second to fifth years, inclusive | <u>28,066</u> | <u>40,051</u> |
| | <u>54,973</u> | <u>70,484</u> |

13. Operating lease arrangements (Continued)

(b) *As lessee*

At 31st December 2005, the Group leases certain of its office properties and staff quarters under operating lease arrangements. Leases for properties are negotiated for terms ranging from one to three years. The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| | Unaudited 31st December 2005 HK\$'000 | Audited 30th June 2005 HK\$'000 |
|---|--|--|
| Within one year | 2,167 | 4,173 |
| In the second to fifth years, inclusive | 631 | 1,714 |
| | <u>2,798</u> | <u>5,887</u> |

14. Capital commitments

| | Unaudited 31st December 2005 HK\$'000 | Audited 30th June 2005 HK\$'000 |
|---|--|--|
| Contracted but not provided for | | |
| Purchase of property, plant and equipment | – | 693 |
| Shareholders' loan to a jointly controlled entity | 22,300 | 26,300 |
| Authorised but not contracted for | | |
| Purchase of property, plant and equipment | – | 17 |
| | <u>22,300</u> | <u>27,010</u> |

15. Related party transactions

Save as disclosed elsewhere in this report, other significant related party transactions, which were carried out in the normal course of the Group's business are as follows:

- (a) Subcontracting fees of HK\$6,301,000 (2004: HK\$8,261,000) paid and payable to certain associates. The sub-contracting fees are mutually negotiated between the Group and the associates.
- (b) During the period, Mr. Chan Sing Chuk, Charles, an executive director of the Company provided a personal guarantee to Crystal Gain Developments Limited, a non-wholly owned subsidiary of the Company up to the total amount of HK\$108,675,000, being 45% of a bank loan of HK\$241,500,000 drawn by the said company.

16. Post Balance Sheet Event

Subsequent to the balance sheet date, on 8th February 2006, the Company completed the sale of the entire issued share capital of a wholly-owned subsidiary of the Company, City Treasure Limited and the assignment of shareholder's loan for a cash consideration of approximately HK\$158,000,000. The proceed was partially used to early repay a bank loan due by City Treasure Limited. The Disposal constitutes a major transaction for the Company under the Listing Rules and details were included in the Company's circular dated 29th November 2005.

BUSINESS REVIEWS AND PROSPECTS

During the six months ended 31st December 2005 the Group achieved a turnover of HK\$833,810,000 (2004: HK\$706,926,000) and a profit attributable to equity holders of HK\$15,854,000 (2004: HK\$17,078,000). As compared to the results of the same period last year, this represents an increase of approximately 17.9% in turnover.

Overall the luxury goods market has improved internationally and benefiting from increasing consumer confidence, spending in jewellery has risen this past Christmas season. The Group continues to focus much resource to develop our jewellery manufacturing, diamond polishing and cutting businesses.

Increasing diamond and gold prices continues to be a factor in affecting the profit margins. Despite a tough and competitive environment, the Company is actively creating original designs and collection brands to provide value added propositions to our customers. The Company will also continue to explore opportunities in the growing jewellery segment and open up new market prospects. The company will maintain a cautious and steady strategy in increasing our competitive advantage in an ever-changing and challenging market.

In property development, the group portfolio of investments continues to provide a steady income source with close to full occupation rate in Continental Diamond Plaza, Causeway Bay.

BUSINESS OUTLOOK

With the economy growing at a steady pace, and despite the growing competition worldwide, our Group is confident that our business will maintain a steady growth.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.01 per share for the six months ended 31st December 2005 (2004: HK\$0.01), totalling HK\$2,798,000 (2004: HK\$2,798,000), payable in cash on 18th April 2006.

The register of members of the Company will be closed from Tuesday, 4th April 2006 to Friday, 7th April 2006, both days inclusive, during which period no transfer of shares of the Company will be registered.

In order to qualify for the above dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:00 p.m. on Monday, 3rd April 2006.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2005, the Group had a moderate gearing ratio of 0.58 (30th June 2005: 0.46), calculated on the basis of the Group's bank borrowings over equity attributable to equity holders of the Company. Total cash and bank balances were HK\$60,326,000 (30th June 2005: HK\$32,339,000) while bank loans and overdrafts were HK\$390,406,000 (30th June 2005: HK\$305,919,000). As at 31st December 2005, short-term bank loans and overdrafts repayable within one year were HK\$166,156,000 (30th June 2005: HK\$22,704,000). The temporary increase in short-term borrowings is due to two major factors. Firstly, a bank loan of approximately HK\$58,782,000 due by a subsidiary, City Treasure Limited, was reclassified as current liability as at 31st December 2005 as the Group has requested for its early repayment in February 2006 following an agreement to dispose of its entire issued share capital as disclosed in more detail in note 16. Secondly, the Group utilised more banking facilities to finance the increase in trade receivables of HK\$65,443,000, most of the sales occurred in the last quarter of 2005.

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

Taking into account of the proceeds from the said disposal and the banking facilities available to the Group, the Directors considered that the Group has sufficient working capital to meet its operational requirements.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

As at 31st December 2005, certain investment properties and leasehold land and buildings of the Group with an aggregate net book value of HK\$614,685,000 (30th June 2005: HK\$616,162,000) were pledged to a bank to secure general banking credit facilities granted to the Group.

CAPITAL STRUCTURE

There was no change to the Group's capital structure during the six month ended 31st December 2005.

NUMBER OF EMPLOYEES AND REMUNERATION POLICIES AND SHARE OPTION SCHEMES

As at 31st December 2005, the Group employed a total of approximately 2,400 employees (30th June 2005: 2,300), the majority of whom are employed in the PRC. The Group remunerates its employees largely based on industry practice. No share option scheme was adopted during the six months ended 31st December 2005.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

With the exception of the UK subsidiary, the sales and purchase transactions and the borrowings of the Group are primarily denominated in United States Dollars and/or Hong Kong Dollars, the risk of foreign exchange fluctuations is minimal under the existing linked exchange rate system for Hong Kong Dollars against United States Dollars. During the six months ended 31st December 2005, the Group did not use any financial instrument for hedging purposes. As at 31st December 2005, there was no hedging instrument outstanding.

PURCHASE, SALE OR REDEMPTION OF SHARES

The Company has not redeemed any of its shares during the period. Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As 31st December 2005, the interests and short positions of the directors and their associates in the shares, underlying shares and debentures of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as set out below:

| Name of directors | Number of ordinary shares Of HK\$0.10 each in the Company | | Percentage of the Company's issued share capital |
|-------------------------|--|------------------------------|--|
| | Personal interest | Family and Other interest | |
| Chan Sing Chuk, Charles | – | 123,786,000 (<i>Note</i>) | 44.24% |
| Cheng Siu Yin, Shirley | – | 123,786,000 (<i>Note</i>) | 44.24% |
| Chu Wai Kok | 8,000 | – | – |

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Note: Mr. Chan Sing Chuk, Charles and Madam Cheng Siu Yin, Shirley are beneficiaries of several discretionary trusts, which through Tamar Investments Limited and Fortune Gold Limited, beneficially owned 76,882,000 shares and 46,904,000 shares, respectively, all of HK\$0.10 each, in the share capital of the Company at 31st December 2005.

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

SUBSTANTIAL SHAREHOLDERS

As at 31st December 2005, no person, other than Mr. Chan Sing Chuk, Charles and Madam Cheng Siu Yin, Shirley, whose interests are set out in the section "Directors" interests and short positions in shares, underlying shares and debentures' above, had registered an interest in 5% or more of the issued share capital of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CORPORATE GOVERNANCE

The Group has adopted all the Code Provisions in Appendix 14 of the Rules Governing the Listing of Securities ("Listing Rules") 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 Mr. 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. The independent 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.

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 accounts for the six months ended 31st December 2005. The unaudited interim financial statements have been approved by the Audit Committee.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 17th March 2006