



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

INTERIM REPORT 2007
二 零 零 七 年 中 期 報 告

(Stock Code: 0513)
(股份代號: 0513)

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The board (the “Board”) of directors (the “Directors”) of Continental Holdings Limited (the “Company”) announces the unaudited consolidated results of the Company and its subsidiaries (the “Group”) for the six months ended 31st December 2006 together with the comparative figures for the corresponding period in 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 31st	
		December	
		2006	2005
	<i>Notes</i>	HK\$'000	HK\$'000
Revenue	4	924,001	833,810
Cost of sales		(831,478)	(758,064)
Gross profit		92,523	75,746
Selling and distribution costs		(17,824)	(15,809)
Administrative expenses		(36,708)	(30,772)
Other operating (expenses)/income		(305)	201
Profit from operations		37,686	29,366
Finance costs	5	(8,203)	(8,606)
Share of results of associates		304	(302)
Share of results of jointly controlled entities		367	559
Profit before income tax	6	30,154	21,017
Income tax expense	7	(4,393)	(2,963)
Profit for the period		<u>25,761</u>	<u>18,054</u>
Attributable to:			
Equity holders of the Company		24,045	15,854
Minority interests		1,716	2,200
		<u>25,761</u>	<u>18,054</u>
Interim dividends	8	<u>2,798</u>	<u>2,798</u>
Earnings per share	9		
– Basic		<u>HK8.6 cents</u>	<u>HK5.7 cents</u>
– Diluted		<u>N/A</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	Unaudited At 31st December 2006	Audited At 30th June 2006
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	51,733	54,680
Leasehold land/Land use rights	9,657	9,777
Investment properties	559,208	467,800
Interests in associates	4,947	4,455
Interests in jointly controlled entities	94,906	94,538
Available-for-sale financial assets	16,579	16,325
Long-term receivables	11,061	12,367
Deferred tax assets	19,811	19,811
	767,902	679,753
Current assets		
Inventories	362,602	335,047
Trade receivables	10 301,370	173,729
Prepayments, deposits and other receivables	32,028	33,966
Current portion of long term receivables	3,643	3,643
Financial assets at fair value through profit or loss	20,142	17,628
Derivative financial instruments	561	561
Due from associates	3,087	2,419
Due from jointly-controlled entities	3,165	2,627
Cash and bank balances	128,601	116,408
	855,199	686,028
Current liabilities		
Trade payables	11 (316,977)	(215,407)
Other payables and accruals	(58,740)	(44,436)
Provision for tax	(29,900)	(33,514)
Derivative financial instruments	-	(312)
Due to associates	(624)	(672)
Loans from minority shareholders	(28,314)	(32,314)
Bank loans and overdrafts, secured	12 (65,385)	(24,566)
	(499,940)	(351,221)
Net current assets	355,259	334,807
Total assets less current liabilities	1,123,161	1,014,560
Non-current liabilities		
Loans from minority shareholders	(1,125)	(1,125)
Deferred tax liabilities	(21,066)	(20,409)
Bank loans, secured	12 (337,435)	(248,117)
	(359,626)	(269,651)
Net assets	763,535	744,909

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		Unaudited At 31st December 2006 <i>HK\$'000</i>	Audited At 30th June 2006 <i>HK\$'000</i>
EQUITY			
Equity attributable to the Company's equity holders			
Issued capital	13	27,980	27,980
Reserves		688,213	665,707
Proposed interim/final dividend		2,798	8,394
		<hr/>	<hr/>
		718,991	702,081
Minority interests		44,544	42,828
		<hr/>	<hr/>
Total equity		763,535	744,909
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended	
	31st December	
	2006	2005
	HK\$'000	HK\$'000
Net cash used in operating activities	(28,675)	(51,508)
Net cash used in investing activities	(93,090)	(2,208)
Net cash generated from financing activities	133,162	81,869
	<hr/>	<hr/>
Increase in cash and cash equivalents	11,397	28,153
Cash and cash equivalents at 1st July	116,408	29,861
Effect of foreign exchange rate changes, net	(178)	463
	<hr/>	<hr/>
Cash and cash equivalents at 31st December	127,627	58,477
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	82,870	60,326
Short term time deposits	45,731	–
Bank overdrafts, secured	(974)	(1,849)
	<hr/>	<hr/>
	127,627	58,477
	<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited
Six months ended 31st December

	Equity attributable to equity holders of the Company							Minority interests	Total
	Issued capital	Share premium account	Non-distributable reserve	Exchange fluctuation reserve	Investment revaluation reserve	Retained profits	Proposed dividends		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Balance at 1st July 2006	27,980	158,373	273,606	1,380	(39)	232,387	8,394	42,828	744,909
Exchange differences on translation of the financial statement of foreign subsidiaries and associates	-	-	-	1,005	-	-	-	-	1,005
Change in fair value of available-for-sale financial assets	-	-	-	-	254	-	-	-	254
Net income recognised directly in equity	-	-	-	1,005	254	-	-	-	1,259
Net profit for the period	-	-	-	-	-	24,045	-	1,716	25,761
Total recognised income for the period	-	-	-	1,005	254	24,045	-	1,716	27,020
Final payment of 2006 dividend	-	-	-	-	-	-	(8,394)	-	(8,394)
Interim dividend, proposed	-	-	-	-	-	(2,798)	2,798	-	-
Balance at 31st December 2006	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>2,385</u>	<u>215</u>	<u>253,634</u>	<u>2,798</u>	<u>44,544</u>	<u>763,535</u>
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 financial statement 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
Total recognised income/(expenses) for the period	-	-	-	507	(279)	15,854	-	2,200	18,282
Payment of final 2005 dividend	-	-	-	-	-	-	(5,596)	-	(5,596)
Interim dividend, proposed	-	-	-	-	-	(2,798)	2,798	-	-
Balance at 31st December 2005	<u>27,980</u>	<u>158,373</u>	<u>273,606</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>

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

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 (“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 the revaluation of certain properties and financial assets and liabilities, which are measured at fair value, as appropriate.

The accounting policies and methods of computation used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 30th June 2006.

In the current period, the Group has adopted for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are either effective for accounting periods beginning on or after 1st December 2005 or 1st January 2006. These are:

HKAS 19 (Amendment)	Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRSs 1 & 6 (Amendment)	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS – Int 4	Determining whether an Arrangement contains a Lease
HKFRS – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environment Rehabilitation Funds
HK(IFRIC) – Int 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment
HK(IFRIC) – Int 7	Applying the Restatement Approach under HKAS 29 Financial Reporting in Hyperinflationary Economies
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives

2. Summary of significant accounting policies (Continued)

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 new standards, amendments or interpretations that have been issued but are not yet effective and are pertinent to the Group's operations. The Directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the results and the financial position of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKFRS 7	Financial Instruments – Disclosures ¹
HK(IFRIC) – Int 10	Interim Financial Reporting and Impairment ²
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions ³

¹ Effective for annual periods beginning on or after 1st January 2007.

² Effective for annual periods beginning on or after 1st November 2006.

³ Effective for annual periods beginning on or after 1st March 2007.

3. 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.

3. Segment Information (Continued)

(a) Business segment

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

	Unaudited									
	Six months ended 31st December									
	Property investment and development		Manufacturing and trading of jewellery and diamond		Investment and others		Elimination		Consolidated Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
Segment revenue:										
Sales to external customers	15,302	16,643	906,878	814,604	-	855	-	-	922,180	832,102
Inter-segment sales	841	-	-	-	-	-	(841)	-	-	-
Others	-	-	-	-	1,821	1,708	-	-	1,821	1,708
	<u>16,143</u>	<u>16,643</u>	<u>906,878</u>	<u>814,604</u>	<u>1,821</u>	<u>2,563</u>	<u>(841)</u>	<u>-</u>	<u>924,001</u>	<u>833,810</u>
Segment results	<u>10,075</u>	<u>13,670</u>	<u>24,228</u>	<u>15,695</u>	<u>4,101</u>	<u>938</u>	<u>-</u>	<u>-</u>	<u>38,404</u>	<u>30,303</u>
Unallocated expenses									(718)	(937)
Profit from operating activities									37,686	29,366
Finance costs	(7,744)	(6,934)	(459)	(1,672)					(8,203)	(8,606)
Share of results of associates	-	-	304	(302)					304	(302)
Share of results of jointly controlled entities	457	559	(90)	-					367	559
Profit before income tax									<u>30,154</u>	<u>21,017</u>

(b) Geographical segment

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

	Unaudited									
	Six months ended 31st December									
	North America		Europe		Hong Kong		Other areas		Consolidated Total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	
Segment revenue:										
Sales to external customers	417,582	372,201	398,826	343,260	101,432	107,817	4,340	8,824	922,180	832,102
Others	-	-	-	-	1,821	1,708	-	-	1,821	1,708
									<u>924,001</u>	<u>833,810</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	
	31st December	
	2006	2005
	HK\$'000	HK\$'000
Sale of goods	906,878	815,459
Gross rental income	15,302	16,643
Interest income	1,259	1,413
Dividend income from investments	562	295
	<u>924,001</u>	<u>833,810</u>

5. Finance Costs

	Unaudited	
	Six months ended	
	31st December	
	2006	2005
	HK\$'000	HK\$'000
Interest expenses on bank loans and overdrafts wholly repayable within five years	946	3,078
Interest expenses on bank loans repayable over five years	7,257	5,528
	<u>8,203</u>	<u>8,606</u>

6. Profit before income tax

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

	Unaudited	
	Six months ended	
	31st December	
	2006	2005
	HK\$'000	HK\$'000
Cost of inventories sold	831,478	758,064
Fair value gains on financial assets at fair value through profit or loss	3,155	(201)
Depreciation of property, plant and equipment	3,677	4,387
Amortisation of leasehold land/Land use right	120	120
Operating leases – land and buildings	2,270	2,069
Provision for bad and doubtful debts	2,327	1,031
	<u>843,927</u>	<u>765,360</u>

7. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 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 charged to the condensed consolidated income statement represents:

	Unaudited Six months ended 31st December	
	2006	2005
	HK\$'000	HK\$'000
Hong Kong profits tax – current	4,393	2,963
Other jurisdictions	–	–
	<u>4,393</u>	<u>2,963</u>

8. Dividends

	Unaudited Six months ended 31st December	
	2006	2005
	HK\$'000	HK\$'000
2006 final paid – HK\$0.03 (2005 final paid: HK\$0.02) per ordinary share	<u>8,394</u>	<u>5,596</u>
2007 Interim, proposed on 26th March 2007, of HK\$0.01 (2006: HK\$0.01) per ordinary share	<u>2,798</u>	<u>2,798</u>

9. 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\$24,045,000 (2005: HK\$15,854,000) and the weighted average number of 279,800,031 (2005: 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, 2006 and 2005.

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.

10. Trade receivables (Continued)

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 31st December 2006	<u>41,584</u>	<u>69,242</u>	<u>69,315</u>	<u>121,229</u>	<u>301,370</u>
Audited balance at 30th June 2006	<u>75,843</u>	<u>23,979</u>	<u>22,574</u>	<u>51,333</u>	<u>173,729</u>

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 31st December 2006	<u>113,918</u>	<u>80,502</u>	<u>33,233</u>	<u>89,324</u>	<u>316,977</u>
Audited balance at 30th June 2006	<u>126,712</u>	<u>31,868</u>	<u>31,147</u>	<u>25,680</u>	<u>215,407</u>

12. Bank loans and overdrafts, secured

At 31st December 2006, the Group's bank loans and overdrafts are as follows:

	Unaudited 31st December 2006 <i>HK\$'000</i>	Audited 30th June 2006 <i>HK\$'000</i>
Bank overdrafts, secured	<u>974</u>	<u>—</u>
Secured bank loan:		
Repayable within one year	<u>64,411</u>	<u>24,566</u>
Repayable in the second year	<u>64,401</u>	<u>19,758</u>
Repayable in the third to fifth years, inclusive	<u>73,203</u>	<u>59,274</u>
Repayable beyond five years	<u>199,831</u>	<u>169,085</u>
	<u>401,846</u>	<u>272,683</u>
	<u>402,820</u>	<u>272,683</u>
Less: Current portion due within one year included under current liabilities (<i>Note</i>)	<u>(65,385)</u>	<u>(24,566)</u>
Non-current portion included under non-current liabilities	<u>337,435</u>	<u>248,117</u>

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

12. Bank loans and overdrafts, secured (Continued)

At 31st December 2006, 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, certain of the leasehold land and buildings;
- (c) corporate guarantees executed by the Company; and
- (d) personal guarantee executed by Dr. Chan Sing Chuk, Charles ("Dr. Chan"), an executive director of the Company, to the extent of HK\$153,675,000.

13. Share Capital

	Unaudited 31st December 2006 HK\$'000	Audited 30th June 2006 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>

14. 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 five years.

At 31st December 2006, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited 31st December 2006 HK\$'000	Audited 30th June 2006 HK\$'000
Within one year	26,346	25,832
In the second to fifth years, inclusive	7,343	16,396
	<u>33,689</u>	<u>42,228</u>

14. Operating lease arrangements (Continued)

(b) *As lessee*

At 31st December 2006, the Group leases certain of its office properties and staff quarter under operating lease arrangement. 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 2006 HK\$'000	Audited 30th June 2006 HK\$'000
Within one year	4,608	4,208
In the second to fifth years, inclusive	<u>4,083</u>	<u>5,595</u>
	<u>8,691</u>	<u>9,803</u>

15. Capital commitments

	Unaudited 31st December 2006 HK\$'000	Audited 30th June 2006 HK\$'000
Contracted but not provided for Shareholders' loan to a jointly controlled entity	<u>24,500</u>	<u>24,500</u>

16. 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\$5,670,000 (2005: HK\$6,301,000) paid and payable to certain associates. The sub-contracting fees are mutually negotiated between the Group and the associates.
- (b) Sales of goods to an associate of HK\$545,000 (2005: HK\$926,000) were made during the period. The terms are mutually negotiated between the Group and the associate.
- (c) Subcontracting income of HK\$2,172,000 (2005: HK\$1,302,000) and income for administrative services of HK\$140,000 (2005: HK\$70,000) were received from a jointly controlled entity. The subcontracting income and income for administrative services provided are mutually negotiated between the Group and the jointly controlled entity.
- (d) During the period, Dr. Chan, 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\$153,675,000 (2005: HK\$108,675,000), being 45% of a bank loan of HK\$341,500,000 (2005: HK\$241,500,000) drawn by the said company.

BUSINESS REVIEWS AND PROSPECTS

During the six months ended 31st December 2006 the Group achieved a turnover of HK\$924,001,000 (2005: HK\$833,810,000) and a profit attributable to equity holders of HK\$24,045,000 (2005: HK\$15,854,000). As compared to the results of the same period last year, this represents an increase of approximately 10.8% in turnover and 51.7% in profit.

Last year has proved to be a challenging year, with a highly competitive environment and volatility in gold prices. Despite such, the Group has met our expectations with encouraging results both in revenues and bottom line. For the months to come, we continue to utilize our competitive advantage to sustain our market position in the industry. In 2007, it will be another challenging year, however, we remain proactive in striving for constant innovations in providing our customers with value added products. Our management team remains actively involved in focusing on improving our manufacturing capabilities and increasing our operational efficiency.

Property rental income remains strong with a close to full occupancy, provides the Group with a steady income stream. In September 2006, the Group has acquired an additional property for investment with redevelopment potential. In the future, the Group will continue to identify potential opportunities for investments.

BUSINESS OUTLOOK

In line with the economic growth, our Group will continue to focus in providing high quality goods and services to our business partners and customers, as well as improve the operational efficiency in production. We will continuously to seek for investment opportunities and profitable income sources in order to diversify our portfolio in jewellery and other investments.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.01 per share for the six months ended 31st December 2006 (2005: HK\$0.01), totalling HK\$2,798,000 (2005: HK\$2,798,000), payable in cash on Thursday, 26th April 2007.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from Tuesday, 17th April 2007 to Wednesday, 18th April 2007, 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 Monday, 16th April 2007.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31st December 2006, the Group had a moderate gearing ratio of 0.56 (30th June 2006: 0.39), 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\$128,601,000 (30th June 2006: HK\$116,408,000) which were mainly denominated in Hong Kong Dollars, US Dollars and UK Pounds, while bank loans and overdrafts were HK\$402,820,000 (30th June 2006: HK\$272,683,000) which were mainly denominated in Hong Kong Dollars. The movement represents the purchase of an investment property through the acquisition by the Group of 60 shares, representing 60% of the entire issued capital of a newly-formed company, which was owned by an independent third party. These banks and overdrafts are secured by first legal charges over the Group's investment properties, certain leasehold land and buildings, assignment of rental income of the investment properties and corporate guarantees executed by the Company together with a personal guarantee executed by a Director.

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 31st December 2006, investment properties and certain leasehold land and buildings of the Group with an aggregate net book value of HK\$561,943,000 (30th June 2006: HK\$473,943,000) 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 month ended 31st December 2006.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEMES

As at 31st December 2006, the Group employed a total of approximately 2,400 employees (30th June 2006: 2,400), 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 31st December 2006.

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. The Group's cashflow and interest rate risks were managed by means of derivative financial instruments, such as interest rate swaps, to ensure short to medium term liquidity. During the six months ended 31st December 2006, the Group did not use any other financial instruments for hedging purposes. As of 31st December 2006, 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 IN EQUITY OR DEBT SECURITIES

As 31st December 2006, 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	Capacity	Number and class of shares held	Percentage holdings
Chan Sing Chuk, Charles (<i>Note</i>)	Interest in a controlled Corporation	123,786,000 ordinary	44.241%
Cheng Siu Yin, Shirley (<i>Note</i>)	Interest in a controlled Corporation	123,786,000 ordinary	44.241%
Chu Wai Kok	Beneficial Owner	8,000 ordinary	0.003%

Note: Such interests are held by a company, Tamar Investments Group Limited, which is a wholly owned by Dr. Chan Sing Chuk, Charles J.P. (holds 50% equity interest) and Ms. Cheng Siu Yin, Shirley (holds 50% equity interest).

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 2006, no person, other than Dr. Chan Sing Chuk, Charles and Ms. 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 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. Code Provision A.4.2. provides that all Directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. 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, relevant amendments were made to the Articles of Association of the Company with the approval of shareholders at the Company’s AGM that all Directors including non-executive Directors of the Company are subject to retirement by rotation 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 31st December 2006. The unaudited interim financial statements have been approved by the Audit Committee. The Audit Committee comprises three independent non-executive Directors and one non-executive Director of the Company.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 26th March 2007