



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

INTERIM REPORT 2008
二 零 零 八 年 中 期 報 告

(Stock Code: 00513)
(股份代號: 00513)

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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 31 December 2007 together with the comparative figures for the corresponding period in 2006.

CONDENSED CONSOLIDATED INCOME STATEMENT

	<i>Notes</i>	Unaudited	
		Six months ended 31 December	
		2007	2006
		HK\$'000	HK\$'000
Revenue	4	790,791	924,001
Cost of sales		(701,655)	(831,478)
Gross profit		89,136	92,523
Selling and distribution costs		(13,581)	(17,824)
Administrative expenses		(40,349)	(36,708)
Other operating expenses		(42)	(305)
Profit from operations		35,164	37,686
Finance costs	5	(12,398)	(8,203)
Share of results of associates		(259)	304
Share of results of jointly controlled entities		65	367
Profit before income tax	6	22,572	30,154
Income tax expense	7	(2,270)	(4,393)
Profit for the period		20,302	25,761
Attributable to:			
Equity holders of the Company		20,432	24,045
Minority interests		(130)	1,716
		20,302	25,761
Interim dividends	8	2,798	2,798
Earnings per share	9		
– Basic		HK7.3 cents	HK8.6 cents
– Diluted		N/A	N/A

CONDENSED CONSOLIDATED BALANCE SHEET

		Unaudited At 31 December 2007 <i>HK\$'000</i>	Audited At 30 June 2007 <i>HK\$ '000</i>
	<i>Notes</i>		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		50,061	49,009
Leasehold land/Land use rights		9,564	9,538
Investment properties		775,955	775,955
Interests in associates		4,080	4,029
Interests in jointly controlled entities		133,723	96,969
Available-for-sale financial assets		20,634	18,507
Long-term receivables		8,724	8,724
Deferred tax assets		18,558	18,558
		1,021,299	981,289
		-----	-----
Current assets			
Inventories		326,413	347,351
Trade receivables	10	246,760	193,260
Prepayments, deposits and other receivables		36,177	30,029
Current portion of long-term receivables		3,643	3,643
Financial assets at fair value through profit or loss		25,206	22,513
Derivative financial instruments		-	39
Due from associates		3,101	516
Due from a jointly controlled entity		2,110	2,110
Cash and bank balances		111,173	102,281
		754,583	701,742
		-----	-----
Current liabilities			
Trade payables	11	(235,043)	(211,031)
Other payables and accruals		(56,140)	(43,167)
Provision for tax		(19,052)	(35,762)
Due to associates		(320)	(607)
Due to a related party		-	(148,742)
Due to a jointly controlled entity		(40)	(39)
Loans from a minority shareholder		(20,980)	-
Bank loans and overdrafts, secured	12	(181,314)	(8,282)
		(512,889)	(447,630)
		-----	-----
Net current assets		241,694	254,112
		-----	-----
Total assets less current liabilities		1,262,993	1,235,401
Non-current liabilities			
Loans from minority shareholders		(1,125)	(21,505)
Deferred tax liabilities		(63,209)	(63,209)
Bank loans, secured	12	(376,540)	(350,497)
		(440,874)	(435,211)
		-----	-----
Net assets		822,119	800,190

CONDENSED CONSOLIDATED BALANCE SHEET (Continued)

		Unaudited	Audited
		At 31 December	At 30 June
		2007	2007
	<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
EQUITY			
Equity attributable to the Company's equity holders			
Issued capital	13	27,980	27,980
Reserves		790,263	765,406
Proposed interim/final dividend		2,798	5,596
		<hr/>	<hr/>
		821,041	798,982
Minority interests		1,078	1,208
		<hr/>	<hr/>
Total equity		822,119	800,190
		<hr/> <hr/>	<hr/> <hr/>

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 31 December	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Net cash used in operating activities	(5,155)	(28,675)
Net cash used in investing activities	(180,582)	(93,090)
Net cash generated from financing activities	199,675	133,162
Increase in cash and cash equivalents	13,938	11,397
Cash and cash equivalents at 1 July	102,281	116,408
Effect of foreign exchange rate changes, net	(5,046)	(178)
Cash and cash equivalents at 31 December	<u>111,173</u>	<u>127,627</u>
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	80,053	82,870
Short term time deposits	31,120	45,731
Bank overdrafts, secured	–	(974)
	<u>111,173</u>	<u>127,627</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 31 December								Minority interests	Total Equity	
	Equity attributable to equity holders of the Company										
	Issued capital <i>HKS'000</i>	Share premium account <i>HKS'000</i>	Non- distributable reserve <i>HKS'000</i>	Other reserve <i>HKS'000</i>	Exchange fluctuation reserve <i>HKS'000</i>	Investment revaluation reserve <i>HKS'000</i>	Retained profits <i>HKS'000</i>	Proposed dividends <i>HKS'000</i>			Total <i>HKS'000</i>
Balance at 30 June 2007 and 1 July 2007:	27,980	158,373	273,606	(8,779)	1,938	2,289	337,979	5,596	798,982	1,208	800,190
Exchange differences on translation of the financial statements of foreign subsidiaries and associates	-	-	-	-	4,657	-	-	-	4,657	-	4,657
Change in fair value of available-for-sale financial assets	-	-	-	-	-	2,566	-	-	2,566	-	2,566
Net income recognised directly in equity	-	-	-	-	4,657	2,566	-	-	7,223	-	7,223
Profit for the period	-	-	-	-	-	-	20,432	-	20,432	(130)	20,302
Total recognised income and expenses for the period	-	-	-	-	4,657	2,566	20,432	-	27,655	(130)	27,525
Payment of final 2007 dividend	-	-	-	-	-	-	-	(5,596)	(5,596)	-	(5,596)
Interim dividend, proposed	-	-	-	-	-	-	(2,798)	2,798	-	-	-
Balance at 31 December 2007	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>(8,779)</u>	<u>6,595</u>	<u>4,855</u>	<u>355,613</u>	<u>2,798</u>	<u>821,041</u>	<u>1,078</u>	<u>822,119</u>
Balance at 1 July 2006	27,980	158,373	273,606	-	1,380	(39)	232,387	8,394	702,081	42,828	744,909
Exchange differences on translation of the financial statements of foreign subsidiaries and associates	-	-	-	-	1,005	-	-	-	1,005	-	1,005
Change in fair value of available-for-sale financial assets	-	-	-	-	-	254	-	-	254	-	254
Net income recognised directly in equity	-	-	-	-	1,005	254	-	-	1,259	-	1,259
Profit for the period	-	-	-	-	-	-	24,045	-	24,045	1,716	25,761
Total recognised income and expenses for the period	-	-	-	-	1,005	254	24,045	-	25,304	1,716	27,020
Payment of final 2006 dividend	-	-	-	-	-	-	-	(8,394)	(8,394)	-	(8,394)
Interim dividend, proposed	-	-	-	-	-	-	(2,798)	2,798	-	-	-
Balance at 31 December 2006	<u>27,980</u>	<u>158,373</u>	<u>273,606</u>	<u>-</u>	<u>2,385</u>	<u>215</u>	<u>253,634</u>	<u>2,798</u>	<u>718,991</u>	<u>44,544</u>	<u>763,535</u>

NOTES TO THE 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 (“Stock Exchange”) 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 used in the preparation of these interim financial statements are consistent with those used in the annual financial statements for the year ended 30 June 2007.

In the current period, the Group has applied for the first time, a number of new standards, amendments and interpretations (“new HKFRSs”) issued by the HKICPA, which are effective for the Group’s financial year beginning on 1 July 2007. The adoption of such new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustments has been required.

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

HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKFRS 8	Operating Segments ²
HK(IFRIC) Interpretation 12	Service Concession Arrangements ¹
HK(IFRIC) Interpretation 13	Customer Loyalty Programmes ³
HK(IFRIC) Interpretation 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ¹

¹ Effective for annual periods beginning on or after 1 January 2008

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

³ Effective for annual periods beginning on or after 1 July 2008

3. Segment Information

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

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

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

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

(a) Business segment

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

	Unaudited							
	Six months ended 31 December							
	Property investment		Design, manufacturing, marketing and trading of fine jewellery and diamonds		Investment		Consolidated Total	
	2007	2006	2007	2006	2007	2006	2007	2006
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Segment revenue:								
Sales to/revenue from external parties	15,083	15,302	773,663	906,878	2,045	1,821	790,791	924,001
Segment results	13,399	10,075	19,827	24,228	3,383	4,101	36,609	38,404
Unallocated expenses							(1,445)	(718)
Profit from operations							35,164	37,686
Finance costs							(12,398)	(8,203)
Share of results of associates	-	-	(259)	304			(259)	304
Share of results of jointly controlled entities	(75)	457	140	(90)			65	367
Profit before income tax							22,572	30,154

3. Segment Information (Continued)

(b) Geographical segment

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

	Unaudited									
	Six months ended 31 December									
	North America		Europe		Hong Kong		Other areas		Consolidated Total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000	HKS'000
Segment revenue:										
Sales to/revenue from external parties	397,164	417,582	281,766	398,826	104,514	103,253	7,347	4,340	790,791	924,001

4. Revenue

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

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

	Unaudited	
	Six months ended	
	31 December	
	2007	2006
	HKS'000	HKS'000
Sale of goods	773,663	906,878
Gross rental income	15,083	15,302
Interest income	1,755	1,259
Dividend income from investments	290	562
	<u>790,791</u>	<u>924,001</u>

5. Finance costs

	Unaudited	
	Six months ended	
	31 December	
	2007	2006
	HKS'000	HKS'000
Interest expenses on bank loans and overdrafts wholly repayable within five years	1,896	946
Interest expenses on bank loans repayable over five years	10,502	7,257
	<u>12,398</u>	<u>8,203</u>

6. Profit before income tax

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

	Unaudited Six months ended 31 December	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cost of inventories sold	701,655	831,478
Fair value gains on financial assets at fair value through profit or loss	(2,439)	(3,155)
Depreciation of property, plant and equipment	3,847	3,677
Amortisation of leasehold land/Land use right	120	120
Operating leases – land and buildings	2,605	2,270
Provision for bad and doubtful debts	4,339	2,327
	<u>701,655</u>	<u>831,478</u>

7. Income tax expense

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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 31 December	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
Hong Kong profits tax – current	2,270	4,393
Other jurisdictions	–	–
	<u>2,270</u>	<u>4,393</u>

8. Dividends

	Unaudited Six months ended 31 December	
	2007	2006
	<i>HK\$'000</i>	<i>HK\$'000</i>
2007 final paid – HK\$0.02 (2006 final paid: HK\$0.03) per ordinary share	5,596	8,394
2008 Interim, proposed on 14 March 2008, of HK\$0.01 (2007: HK\$0.01) per ordinary share	2,798	2,798
	<u>5,596</u>	<u>8,394</u>
	<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\$20,432,000 (2006: HK\$24,045,000) and 279,800,031 (2006: 279,800,031) ordinary shares in issue during the period.

No diluted earnings per share is shown as the Company has no dilutive ordinary shares at 31 December 2007 and 2006.

10. Trade receivables

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

The ageing analysis of trade receivables, net of provision, as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Current	31-60	61-90	Over	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		days	days	90 days	
Unaudited balance at 31 December 2007	<u>26,085</u>	<u>62,959</u>	<u>72,476</u>	<u>85,240</u>	<u>246,760</u>
Audited balance at 30 June 2007	<u>100,329</u>	<u>27,013</u>	<u>33,025</u>	<u>32,893</u>	<u>193,260</u>

11. Trade payables

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

	Current	31-60	61-90	Over	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
		days	days	90 days	
Unaudited balance at 31 December 2007	<u>90,594</u>	<u>54,861</u>	<u>47,080</u>	<u>42,508</u>	<u>235,043</u>
Audited balance at 30 June 2007	<u>157,806</u>	<u>39,103</u>	<u>7,544</u>	<u>6,578</u>	<u>211,031</u>

12. Bank loans and overdrafts, secured

At 31 December 2007, the Group's bank loans and overdrafts are as follows:

	Unaudited 31 December 2007 <i>HK\$'000</i>	Audited 30 June 2007 <i>HK\$'000</i>
Bank overdrafts, secured	–	113
Secured bank loans:		
Repayable within one year	181,314	8,169
Repayable in the second year	4,237	43,169
Repayable in the third to fifth years, inclusive	13,224	9,188
Repayable beyond five years	359,079	298,140
	557,854	358,666
	557,854	358,779
Less: Current portion due within one year included under current liabilities (<i>Note</i>)	(181,314)	(8,282)
Non-current portion included under non-current liabilities	376,540	350,497

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

At 31 December 2007, 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; and
- (c) corporate guarantees executed by the Company.

13. Issued capital

	Unaudited 31 December 2007 <i>HK\$'000</i>	Audited 30 June 2007 <i>HK\$'000</i>
Authorised: 3,500,000,000 ordinary shares of HK\$0.10 each	350,000	350,000
Issued and fully paid: 279,800,031 ordinary shares of HK\$0.10 each	27,980	27,980

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 31 December 2007, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited 31 December 2007 <i>HK\$'000</i>	Audited 30 June 2007 <i>HK\$'000</i>
Within one year	9,893	20,062
In the second to fifth years, inclusive	5,347	6,608
	15,240	26,670

(b) *As lessee*

At 31 December 2007, 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 31 December 2007 <i>HK\$'000</i>	Audited 30 June 2007 <i>HK\$'000</i>
Within one year	5,115	4,202
In the second to fifth years, inclusive	2,351	3,846
	7,466	8,048

15. Capital commitments

	Unaudited 31 December 2007 <i>HK\$'000</i>	Audited 30 June 2007 <i>HK\$'000</i>
Contracted but not provided for Shareholders' loan to a jointly controlled entity	–	29,200

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\$3,806,000 (2006: HK\$5,670,000) paid and payable to certain associates. The subcontracting fees are mutually negotiated between the Group and the associates.
- (b) Sales of goods to an associate of HK\$303,000 (2006: HK\$545,000) were made during the period. The terms are mutually negotiated between the Group and the associate.
- (c) Subcontracting income of HK\$ Nil and (2006: HK\$2,172,000) and income for administrative services of HK\$ Nil (2006: HK\$140,000) 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 last period, Dr. 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\$153,675,000, being 45% of a bank loan of HK\$341,500,000 drawn by the said company. The personal guarantee was released when the bank loan was wholly repaid on 29 June 2007.

Compensation of key management personnel

Included in employee benefit expenses are key management personnel compensation and comprises the following categories:

	Unaudited	
	Six months ended	
	31 December	
	2007	2006
	HK\$'000	HK\$'000
Short term employee benefits	3,162	3,108
Post-employment benefits	125	115
	<u>3,287</u>	<u>3,223</u>

17. Event after the balance sheet date

Subsequent to the balance sheet date, on 28 February 2008, a subsidiary of the Company, Poly Jade Development Limited completed the sale of a property located at No.2-6 Bowring Street, Kowloon for a cash consideration of HK\$105 million. The disposal constitutes a discloseable transaction for the Company under the Listing Rules and details were included in the Company's circular dated 2 January 2008.

MANAGEMENT COMMENTARY AND OTHER INFORMATION

BUSINESS REVIEW AND PROSPECTS

During the six months ended 31 December 2007 the Group achieved a turnover of HK\$790,791,000 (2006: HK\$924,001,000) and a profit attributable to equity holders of HK\$20,432,000 (2006: HK\$24,045,000).

Overall, first half of this financial year has been challenging. The results of jewellery manufacturing and diamond trading were impacted by the economic environment. Increase in gold prices, appreciation of the renminbi and escalating production costs in China were the key challenges affecting our performance. The overseas consumer market sentiment remains conservative resulting in a decrease of jewellery turnover for the second half of 2007. We continue to focus our resources in developing new markets and diversifying our portfolio to strengthen our long term competitiveness of the Group.

Property rental remains a solid and consistent income stream. In the future, the Group will continue to identify potential investment opportunities both in Hong Kong and other regions.

BUSINESS OUTLOOK

Looking ahead we remain cautious as we foresee further uncertainties in the U.S. economy by recent sub-prime mortgage crises as well as weakening of the dollar. We will continue to explore other new emerging markets for our distribution.

With an unparallel expertise and solid foundation in the industry, we feel confident that the Group will continue to be a very competitive player in the industry. For year 2008, we continue to focus on enhancing our bottom line, improving our operational efficiencies and developing long term strategies for the healthy growth of the Group.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK\$0.01 per share for the six months ended 31 December 2007 (2006: HK\$0.01), totalling HK\$2,798,000 (2006: HK\$2,798,000), payable in cash on Tuesday, 22 April 2008.

CLOSURE OF REGISTERS OF MEMBERS

The register of members of the Company will be closed from Thursday, 10 April 2008 to Friday, 11 April 2008, 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 Wednesday, 9 April 2008.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group had a moderate gearing ratio of 0.68 (30 June 2007: 0.45), 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\$111,173,000 (30 June 2007: HK\$102,281,000) which were mainly denominated in Hong Kong Dollars, US Dollars and UK Pounds, while bank loans and overdrafts were HK\$557,854,000 (30 June 2007: HK\$358,779,000) which were mainly denominated in Hong Kong Dollars. The movement represents mainly the repayment of loan from a related party to a non-wholly owned subsidiary after the acquisition of minority interests in that subsidiary and investments in jointly controlled entity. 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 property and corporate guarantees executed by the Company.

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

PLEDGE OF ASSETS

As at 31 December 2007, investment properties and certain leasehold land and buildings of the Group with an aggregate net book/carrying value of HK\$785,018,000 (30 June 2007: HK\$785,086,000) were pledged to certain banks to secure general banking facilities granted to the Group.

CAPITAL STRUCTURE

There was no change to the Group's capital structure during the six months ended 31 December 2007.

NUMBER OF EMPLOYEES, REMUNERATION POLICIES AND SHARE OPTION SCHEMES

As at 31 December 2007, the Group employed a total of approximately 2,100 employees (30 June 2007: 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 31 December 2007.

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 31 December 2007, the Group did not use any other financial instruments for hedging purposes. As of 31 December 2007, 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 31 December 2007, 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 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 1</i>)	Interest in a controlled Corporation	123,786,000 ordinary	44.241%
Cheng Siu Yin, Shirley (<i>Note 1</i>)	Interest in a controlled Corporation	123,786,000 ordinary	44.241%
Chu Wai Kok	Beneficial Owner	8,000 ordinary	0.003%
Chan Ping Kuen, Derek (<i>Note 2</i>)	Beneficial Owner	20,000 ordinary	0.007%

Note:

- Such interests are held by a company, Tamar Investments Group Limited, which is wholly owned by Dr. Chan Sing Chuk, Charles J.P. and Ms. Cheng Siu Yin, Shirley.
- Mr. Chan Ping Kuen, Derek was appointed as an independent non-executive Director and a member of Audit Committee of the Company with effect from 7 March 2008.

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 31 December 2007, 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 on the Stock Exchange (“Listing Rules”) throughout the six months ended 31 December 2007 except the following deviations:

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited interim financial statements for the six months ended 31 December 2007. The unaudited interim financial statements have been approved by the Audit Committee. The Audit Committee comprises three independent non-executive Directors and two non-executive Directors of the Company.

On behalf of the Board
Chan Sing Chuk, Charles
Chairman

Hong Kong, 14 March 2008