THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt about any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer or registered institution in securities, bank manager, solicitor, professional accountant or other professional advisers.

If you have sold or transferred all your shares in Continental Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or transferee or to the bank, licensed securities dealer or registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

CONTINENTAL

HOLDINGS LIMITED

恒和珠寶集團有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 00513)

VERY SUBSTANTIAL DISPOSAL

Capitalised terms used in this cover page shall have the same meanings as those defined in the section headed "Definitions" of the circular.

A letter from the Board is set out on pages 3 to 8 of this circular.

A notice convening the EGM to be held at Ballroom Three, 18/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 27 July 2009 at 11:00 a.m. is set out on pages 115 to 116 of this circular. If you are not able to attend the meeting in person, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the registered office of the Company at Flats M and N, 1st Floor, Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

10 July 2009

CONTENT

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Announcement"	the announcement dated 18 June 2009 issued by the Company, in relation to the Disposal
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	the board of Directors
"BVI"	British Virgin Islands
"Company"	Continental Holdings Limited (恒和珠寶集團有限公司), a company incorporated in Hong Kong with limited liability, the Shares of which are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration"	the total consideration payable by the Purchaser to the Vendor for the Disposal
"Director(s)"	the director(s) of the Company
"Disposal"	the disposal of the Property by the Vendor to the Purchaser
"EGM"	an extraordinary general meeting of the Company to be convened and held at Ballroom Three, 18/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 27 July 2009 at 11:00 a.m. for the purpose of considering, and if thought fit, approving, among other matters (if any), the Disposal
"Group"	collectively, the Company and its subsidiaries from time to time
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"Last Trading Day"	16 June 2009, being the last trading date prior to the signing of the Provisional Agreement
"Latest Practicable Date"	7 July 2009, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein

"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Property"	Continental Diamond Plaza located at Nos. 523, 525, 527 Hennessy Road, Hong Kong
"Provisional Agreement"	the provisional agreement for sale and purchase dated 16 June 2009 entered into between the Vendor and the Purchaser in relation to the Disposal
"Purchaser"	Winvote Century Limited, a company incorporated in Hong Kong
"Remaining Group"	the Group subsequent to the Disposal
"SFO"	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
"Shareholder(s)"	holder(s) of Share(s)
"Share(s)"	share(s) of HK$0.10 each in the share capital of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Vendor"	Crystal Gain Developments Limited, a company incorporated in the BVI and a wholly-owned subsidiary of the Company
"%"	per cent

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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00513)

Executive Directors:
Dr. Chan Sing Chuk, Charles B.B.S., J.P.
Ms. Cheng Siu Yin, Shirley
Ms. Chan Wai Kei, Vicki
Mr. Chan Wai Lap, Victor

Non-executive Director:
Mr. Chu Wai Kok

Independent non-executive Directors:
Mr. Wong Kai Cheong
Mr. Yu Shiu Tin, Paul B.B.S. MBE, J.P.
Mr. Chan Ping Kuen, Derek
Mr. Sze, Irons

Registered Office:
Flats M and N, 1st Floor
Kaiser Estate, Phase III
11 Hok Yuen Street
Hunghom, Kowloon
Hong Kong

10 July 2009

To the Shareholders

Dear Sir or Madam

VERY SUBSTANTIAL DISPOSAL

INTRODUCTION

On 18 June 2009, the Company announced that on 16 June 2009 (after trading hours), the Vendor, a wholly-owned subsidiary of the Company, and the Purchaser entered into the Provisional Agreement for the sale and purchase of the Property at a consideration of HK$838,000,000.

The purpose of this circular is (a) to give you further information regarding, among others, the Disposal and the Group; and (b) to give you notice of the EGM.

THE PROVISIONAL AGREEMENT

Date:	16 June 2009 (after trading hours)
Parties:	
Vendor:	Crystal Gain Developments Limited, a wholly-owned subsidiary of the Company
Purchaser:	Winvote Century Limited. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, (i) the principal activity of the Purchaser is property investment and (ii) the Purchaser, its beneficial owner (Gainful Overseas Ltd., a company incorporated in the BVI) and its ultimate beneficial owner(s) are independent third parties of the Group and their respective connected persons.

Subject matter

Continental Diamond Plaza located at Nos. 523, 525, 527 Hennessy Road, Hong Kong, which is a non-residential property. The Purchaser agrees to purchase the Property on an "as is" basis and subject to the existing tenancies and lettings and the management agreement as set out in the schedules to the Provisional Agreement.

The Vendor shall give, show and prove title to the Property in accordance with section 13 and section 13A of the Conveyancing and Property Ordinance (Chapter 219 of the Laws of Hong Kong).

Based on the current information available to the Company, the occupancy rate of the Property is 100%. The Property is of non-residential use and mainly comprises retail shops and restaurants. The duration of the tenancy agreements for the Property is generally three years. As at the Latest Practicable Date, the Company does not occupy any part of the Property.

Consideration

The consideration of HK$838,000,000 for the Property shall be payable by the Purchaser to the Vendor in the following manner:

(1) an initial deposit in the sum of HK$10,000,000 was paid to the Vendor's solicitors upon signing of the Provisional Agreement;

(2) a further deposit in the sum of HK$30,000,000 was paid to the Vendor's solicitors on or before 19 June 2009;

(3) further deposit and part payment of 10% of the Consideration (less the HK$40,000,000 paid aforesaid) shall be paid to the Vendor's solicitors on or before 8 July 2009 (before 5:00 p.m.);

(4) the balance of the Consideration equivalent to HK$754,200,000 shall be paid to the Vendor upon completion of the Disposal; and

(5) the deposits payable under (1), (2) and (3) above shall be paid to the Vendor's solicitors as stakeholders who may release the same to the Vendor provided that the balance of the Consideration is sufficient to discharge the existing legal charge/mortgage (if any) and that the conditions precedent to the Provisional Agreement are fulfilled on or before 15 August 2009.

Basis of determining the Consideration

The Consideration was determined after arm's length negotiations between the Vendor and the Purchaser, taking into account the recent market conditions of the property market in Hong Kong (including the recent surge in property price) and a valuation of the Property at HK$683,000,000 as at 31 December 2008 made by Chung, Chan & Associates, an independent qualified property valuer. A full valuation report on the Property is set out on pages 104 to 108 of this circular.

Failure to perform

In the event the Purchaser shall fail to perform any of the terms of the Provisional Agreement or complete the sale and purchase in accordance with the Provisional Agreement, the Vendor may terminate the Provisional Agreement by notice in writing to the Purchaser whereupon all deposits paid shall be forfeited to the Vendor as and for agreed liquidated damages.

In the event the Vendor shall fail to perform any of the terms contained in the Provisional Agreement or complete the sale and purchase in accordance with the terms of the Provisional Agreement, the Purchaser may, in addition to and without prejudice to its rights to terminate the Provisional Agreement and/or claim damages, seek specific performance against the Vendor.

Conditions precedent

Completion of the sale and purchase of the Property is subject to and conditional upon fulfillment of the following conditions on or before 15 August 2009:

(1) the approval being obtained from the Shareholders to the entering into and implementation of the transactions contemplated under the Provisional Agreement at an extraordinary general meeting of the Company; and

(2) all necessary consents and approvals, being obtained by the Company in compliance with the Listing Rules.

In the event of non-fulfillment of the conditions above on or before 15 August 2009, the Provisional Agreement shall become void and of no further effect and the parties shall forthwith at its respective own costs enter into a cancellation agreement of the Provisional Agreement and all deposits paid shall be refunded to the Purchaser (together with interest thereon at the prime lending rate from time to time quoted by The Hongkong and Shanghai Banking Corporation Limited) and the Purchaser shall deliver to the Vendor the registered agreement(s) to enable the Vendor to complete the chain of title to the Property in exchange for the Vendor's counterpart of the said agreements whereupon the parties shall have no further liability against each other.

Completion

The formal agreement for sale and purchase shall be executed on or before 8 July 2009 (before 5:00 p.m.) and completion of the Disposal shall take place on or before 16 October 2009 (before 5:00 p.m.).

INFORMATION ON THE GROUP

The Group is principally engaged in the design, manufacturing, marketing and trading of fine jewellery and diamonds. The Group also maintains an investment portfolio including property investment and other investment.

POSSIBLE FINANCIAL EFFECT OF THE DISPOSAL

Based on the book value of the Property (being HK$683,000,000 as at 31 December 2008), it is expected that the Company will realise a gain from the Disposal of approximately HK$155,000,000 (not taking into account the agency fees and other professional fees to be incurred) being the difference between the Consideration and the book value of the Property as at 31 December 2008.

The net profit before taxation attributable to the Property for the financial years ended 30 June 2007 and 2008 were approximately HK$248,100,000 and HK$47,600,000 respectively. The net profit after taxation attributable to the Property for the financial years ended 30 June 2007 and 2008 were approximately HK$204,700,000 and HK$43,300,000 respectively.

Based on the unaudited pro forma financial information of the Remaining Group illustrated in Appendix III to this circular, after completion, the total assets of the Remaining Group would be decreased by approximately HK$304 million. The total liabilities of the Remaining Group would be decreased by approximately HK$509 million. The earnings of the Remaining Group would be increased by approximately HK$197 million for the six months ended 31 December 2008.

REASONS FOR AND BENEFITS OF THE DISPOSAL

Having considered the revitalising property market condition and the Consideration for the Property offered by the Purchaser, the Directors consider that the Disposal is a good opportunity for the Company to realise its investment. The proceeds from the Disposal will enable the Company to reduce its borrowings and to improve working capital condition of the Company for future opportunities that may arise.

The Directors (including the independent non-executive Directors) consider that the Provisional Agreement is entered into after arm's length negotiations and the terms therein are in accordance with the normal practice in the property market and the Disposal is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

USE OF PROCEEDS

The Company intends to use part of the net sale proceeds from the Disposal to repay certain bank borrowings and release the related mortgage on the Property, being HK$439 million, and the remaining balance will be used for general working capital.

EGM

The Disposal constitutes a very substantial disposal for the Company and is subject to approval by the Shareholders pursuant to the Listing Rules. The Directors shall seek the approval of the Shareholders on the Disposal and the transactions contemplated thereunder at the EGM. The Company will convene the EGM to be held at Ballroom Three, 18/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 27 July 2009 at 11:00 a.m. for the purpose of considering, and if thought fit, approving, among other matters (if any), the Disposal. A notice of the EGM is set out from pages 115 to 116 of this circular. An ordinary resolution will be put to vote by the Shareholders at the EGM by way of poll. Any Shareholder with a material interest in the Disposal and his/her associates will abstain from voting for the approval of the Disposal at the EGM. To the best of the Directors' knowledge, information and belief having made all reasonable enquiries, no Shareholder is required to abstain from voting for the approval of the Disposal at the EGM.

A form of proxy for use at the EGM is also enclosed. If you are not able to attend the meeting in person, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon to the registered office of the Company at Flats M and N, 1st Floor, Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof if you so wish.

WAIVER FROM STRICT COMPLIANCE WITH RULE 14.68(2)(b)(i) OF THE LISTING RULES

Rule 14.68(2)(b)(i) of the Listing Rules requires that, a circular in connection with a very substantial disposal of any revenue-generating assets (other than a business or company) with an identifiable income stream or assets valuation must contain, among other matters, a profit and loss statement and valuation (where available) on the identifiable net income stream and valuation in relation to such assets ("**P/L Statement and Valuation**") for the three preceding financial years. The financial information on which such profit and loss statement is based must relate to a financial period ended six months or less before the circular is issued.

The financial year of the Company ended on 30 June. In accordance with Rule 14.68(2)(b)(i) of the Listing Rules, the P/L Statement and Valuation for the three financial years ended 30 June 2009 should be included in this circular. However, the Company finds it not practicable for the Company to prepare the relevant financial data up to 30 June 2009 for inclusion in this circular given the tight schedule.

The Company has applied for a waiver from strict compliance with Rule 14.68 (2)(b)(i) of the Listing Rules and seek the consent from the Stock Exchange to incorporate the profit and loss statement and valuation of the Property for each of the three years ended 30 June 2008 and for the eleven months ended 31 May 2009 in Appendix I to this circular.

The Directors confirm that strict compliance with Rule 14.68(2)(b)(i) of the Listing Rules would be unduly burdensome and the waiver would not result in undue risks to the Shareholders and the investors.

The Directors confirm that up to the Latest Practicable Date, the relevant financial data for the month ended 30 June 2009, being the items shown in the profit and loss statement of the Property as contained in Appendix I to this circular, including, among others, the cost of services provided and daily expenses like the administrative expenses and other operating expenses, followed the same trend as the eleven months ended 31 May 2009, and there had not been any material change in the valuation of the Property since 31 May 2009. The Directors also confirm that there was no event since 31 May 2009 which would materially affect the accuracy of the information in the profit and loss statement and valuation of the Property as contained in Appendix I to this circular.

RECOMMENDATION

The Board considers that the Disposal is in the interests of the Company and the Shareholders as a whole and that the terms of the Disposal are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Board recommends that the Shareholders should vote in favour of the ordinary resolution which will be proposed at the EGM to approve the Disposal and the transactions contemplated thereby and in connection therewith.

ADDITIONAL INFORMATION

Your attention is drawn to the information set out in the appendices to this circular.

Yours faithfully,
For and on behalf of the Board
Continental Holdings Limited
Chan Sing Chuk, Charles
Chairman

PROFIT AND LOSS STATEMENT AND VALUATION OF THE PROPERTY

In accordance with paragraph 68(2)(b)(i) of Chapter 14 of the Listing Rules, the profit and loss statement of the Property for the years ended 30 June 2006, 2007, 2008 and eleven months ended 31 May 2009, and the valuation of the Property as at 30 June 2006, 2007, 2008 and 31 May 2009 are set out below. In the opinion of the directors of the Company, such information has been properly compiled and derived from the underlying books and records and valuation reports of the Property of the Group. The Company has engaged Grant Thornton to conduct to a review of such information in accordance with the Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. Grant Thornton have compared and found such information has been properly compiled and derived from the underlying books and records of the Group or the valuation reports prepared by Chung, Chan & Associates, an independent firm of chartered surveyors.

A. Profit and loss statement of the Property

	Year ended 30 June			Eleven months ended 31 May
	2006	**2007**	**2008**	**2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	26,319	29,119	30,723	33,345
Cost of services provided	(1,866)	(1,986)	(2,591)	(2,432)
Gross profit	24,453	27,133	28,132	30,913
Other income	573	156	76	10
Administrative expenses *(Note)*	(2,035)	(4,239)	(3,609)	(3,259)
Other operating expenses	–	–	–	(69)
Change in fair value of investment property	6,000	240,000	40,000	60,000
Profit from operating activities	28,991	263,050	64,599	87,595
Finance costs	(11,346)	(14,920)	(16,951)	(7,919)
Profit before income tax	17,645	248,130	47,648	79,676
Income tax expense	(2,913)	(43,419)	(4,306)	(13,202)
Profit for the year/period	14,732	204,711	43,342	66,474

Note: Administrative expenses include inter-company management fee paid to one of the subsidiaries of the Company in the approximate amounts of HK$528,000, HK$3,168,000, HK$3,168,000 and HK$2,940,000 for the years ended 30 June 2006, 2007, 2008 and the eleven months ended 31 May 2009 respectively.

B. Valuation of the Property

	As at 30 June 2006	**As at 30 June 2007**	**As at 30 June 2008**	**As at 31 May 2009**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Valuation of the Property	460,000	700,000	740,000	800,000

Note: The valuations of the Property were based on the valuation reports prepared by Chung, Chan & Associates, an independent firm of chartered surveyors on an open market existing use basis by reference to market prices for similar properties.

1. SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the three financial years ended 30 June 2008, as extracted from the audited financial statements, is set out below.

Results

	Year ended 30 June		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Revenue	1,711,670	1,632,180	1,497,682
Profit before income tax	71,379	259,794	101,073
Income tax expense	(16,324)	(52,898)	(13,985)
Profit before minority interests	55,055	206,896	87,088
Minority interests	(4,518)	(92,910)	(3,611)
Net profit attributable to Equity holders of the Company	50,537	113,986	83,477

Assets, liabilities and minority interests

	As at 30 June		
	2006	**2007**	**2008**
	HK$'000	*HK$'000*	*HK$'000*
Total assets	1,365,781	1,683,031	1,673,773
Total liabilities	(620,872)	(882,841)	(795,200)
Minority interests	(42,828)	(1,208)	(1,865)
	702,081	798,982	876,708

2. AUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE YEAR ENDED 30 JUNE 2008

The following are the audited financial statements of the Group for the year ended 30 June 2008 as extracted from the annual report of the Company for the year ended 30 June 2008.

Consolidated Income Statement
For the year ended 30 June 2008

	Notes	**2008** *HK$'000*	**2007** *HK$'000*
Revenue	*6*	1,497,682	1,632,180
Cost of sales		(1,337,277)	(1,474,303)
Gross profit		160,405	157,877
Selling and distribution costs		(26,676)	(28,397)
Administrative expenses		(73,143)	(61,884)
Other operating expenses		(18,690)	(8,695)
Changes in fair value of investment properties		81,445	216,765
Profit from operations		123,341	275,666
Finance costs	*7*	(19,733)	(17,636)
Share of results of associates		(681)	(550)
Share of results of jointly controlled entities		(1,854)	2,314
Profit before income tax	*8*	101,073	259,794
Income tax expense	*9*	(13,985)	(52,898)
Profit for the year		87,088	206,896
Attributable to:			
Equity holders of the Company	*10*	83,477	113,986
Minority interests		3,611	92,910
Profit for the year		87,088	206,896
Dividends	*11*		
Interim		2,798	2,798
Proposed final		4,197	5,596
		6,995	8,394
Earnings per share for profit attributable to the equity holders of the Company during the year	*12*		
– Basic		HK29.8 cents	HK41.0 cents
– Diluted		N/A	N/A

Consolidated Balance Sheet
As at 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	50,723	49,009
Leasehold land/Land use rights	16	9,119	9,538
Investment properties	17	752,400	775,955
Interests in associates	19	3,606	4,029
Interests in jointly controlled entities	20	131,978	96,969
Available-for-sale financial assets	21	14,177	18,507
Long term receivables	22	6,135	8,724
Deferred tax assets	32	8,890	18,558
		977,028	981,289
Current assets			
Inventories	23	338,573	347,351
Trade receivables	24	168,745	193,260
Prepayments, deposits and other receivables		42,257	30,029
Current portion of long term receivables	22	4,926	3,643
Financial assets at fair value through profit or loss	25	12,763	22,513
Derivative financial instruments	26	–	39
Due from associates	19	493	516
Due from a jointly controlled entity	20	120	2,110
Cash and bank balances	27	128,868	102,281
		696,745	701,742
Current liabilities			
Trade payables	28	(199,930)	(211,031)
Other payables and accruals		(46,170)	(43,167)
Provision for tax		(17,183)	(35,762)
Due to associates	19	(538)	(607)
Due to a related party	29	–	(148,742)
Due to jointly controlled entities	20	(3)	(39)
Bank loans and overdrafts, secured	31	(90,870)	(8,282)
		(354,694)	(447,630)
Net current assets		342,051	254,112

	Notes	2008 HK$'000	2007 HK$'000
Total assets less current liabilities		1,319,079	1,235,401
Non-current liabilities			
Loans from minority shareholders	*30*	(1,125)	(21,505)
Deferred tax liabilities	*32*	(66,972)	(63,209)
Bank loans, secured	*31*	(372,409)	(350,497)
		(440,506)	(435,211)
Net assets		878,573	800,190
EQUITY			
Equity attributable to the Company's equity holders			
Issued capital	*33*	27,980	27,980
Reserves	*34*	844,531	765,406
Proposed final dividend		4,197	5,596
		876,708	798,982
Minority interests		1,865	1,208
Total equity		878,573	800,190

Balance Sheet
As at 30 June 2008

	Notes	2008 HK$'000	2007 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Interests in subsidiaries	*18*	572,306	557,029
Interests in associates	*19*	–	2
Long term receivables	*22*	5,703	6,661
		578,009	563,692
Current assets			
Prepayments, deposits and other receivables		84	73
Current portion of long term receivables	*22*	958	958
Due from a subsidiary	*18*	47,986	52,300
Due from an associate	*19*	8	8
Cash and bank balances	*27*	82	85
		49,118	53,424
Current liabilities			
Other payables and accruals		(300)	(491)
Provision for tax		(1,730)	(2,433)
		(2,030)	(2,924)
Net current assets		47,088	50,500
Net assets		625,097	614,192
EQUITY			
Equity attributable to Company's equity holders			
Issued capital	*33*	27,980	27,980
Reserves	*34*	592,920	580,616
Proposed final dividend		4,197	5,596
Total equity		625,097	614,192

Consolidated Cash Flow Statement
For the year ended 30 June 2008

	2008	2007
	HK$'000	*HK$'000*
Cash flows from operating activities		
Profit before income tax	101,073	259,794
Adjustments for:		
Finance costs	19,733	17,636
Share of results of associates	681	550
Share of results of jointly controlled entities	1,854	(2,314)
Depreciation of property, plant and equipment	9,026	10,324
Amortisation of leasehold land/land use rights	239	239
Bad debts written off	2,227	81
Amount due from an associate written off	1,070	620
(Write back)/Provision against inventories	(3,342)	2,497
Provision/(Write back) for long-term receivables	1,195	(363)
Provision/(Write back) for trade receivables	9,006	(5,088)
Write back of long outstanding payables	(1,232)	–
Write back of amount due to a related party	(103)	–
Provision for impairment of property, plant and equipment	–	2,629
Impairment loss on available-for-sale financial assets	3,865	146
Provision for impairment on an amount due from a jointly controlled entity	–	11,670
Gain on disposal of leasehold land/land use rights	(3)	–
Loss/(Gain) on disposal of property, plant and equipment	45	(104)
Loss on deregistration of subsidiaries	66	–
Changes in fair value in investment properties	(81,445)	(216,765)
Fair value changes on derivative financial instruments	39	210
Operating profit before working capital changes	63,994	81,762
Decrease/(Increase) in inventories	12,120	(14,801)
Decrease/(Increase) in trade receivables	13,393	(13,097)
(Increase)/Decrease in prepayments, deposits and other receivables	(11,952)	3,937
Decrease/(Increase) in financial assets at fair value through profit or loss	9,750	(4,885)
(Increase)/Decrease in balances with associates	(1,116)	1,218
Decrease in balances with jointly controlled entities	1,954	556
Decrease in trade and other payables and accruals	(6,866)	(5,645)
Cash generated from operations	81,277	49,045
Interest paid	(19,733)	(17,636)
Dividend paid	(11,414)	(11,192)
Hong Kong profits tax paid	(19,520)	(6,630)
Net cash generated from operating activities	30,610	13,587

	2008 *HK$'000*	2007 *HK$'000*
Cash flows from investing activities		
Purchases of property, plant and equipment	(7,459)	(5,599)
Purchase of an investment property	–	(78,190)
Proceeds from disposal of property, plant and equipment	593	432
Proceeds from disposal of an investment property	105,000	–
Acquisition of minority interests	–	(3,382)
Acquisition of subsidiary (net of cash and cash equivalents acquired)	–	(7,920)
Proceeds from disposal of leasehold land/land use rights	183	–
Repayment of long term receivables	111	2,579
Increase in investment in a jointly controlled entity	–	(117)
Increase in loan to a jointly controlled entity	(37,000)	(11,670)
Net cash generated from/(used in) investing activities	61,428	(103,867)
Cash flows from financing activities		
Repayment of amount due to a related party	(148,639)	–
Repayment of loan from a minority shareholder	(20,380)	(23,500)
Loan from minority shareholders	–	15,100
New bank loans	148,724	359,000
Repayment of bank loans	(44,111)	(273,017)
Net cash (used in)/generated from financing activities	(64,406)	77,583
Net increase/(decrease) in cash and cash equivalents	27,632	(12,697)
Cash and cash equivalents at beginning of year	102,168	116,408
Effect of foreign exchange rate changes, net	(932)	(1,543)
Cash and cash equivalents at end of year	128,868	102,168
Analysis of balances of cash and cash equivalents		
Cash and bank balances	72,984	66,858
Short term time deposits	55,884	35,423
	128,868	102,281
Bank overdrafts, secured	–	(113)
	128,868	102,168

Consolidated Statement of Changes in Equity

For the year ended 30 June 2008

	Equity attributable to equity holders of the Company									Minority interest	Total equity
	Issued capital	Share premium account	Non-distributable reserve	Other reserve	Exchange fluctuation reserve	Investment revaluation reserve	Retained profits	Proposed final dividend	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 30 June 2006 and 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	–	–	–	–	558	–	–	–	558	–	558
Change in fair value of available-for-sale financial assets	–	–	–	–	–	2,328	–	–	2,328	–	2,328
Net income recognised directly in equity	–	–	–	–	558	2,328	–	–	2,886	–	2,886
Profit for the year	–	–	–	–	–	–	113,986	–	113,986	92,910	206,896
Total recognised income and expense for the year	–	–	–	–	558	2,328	113,986	–	116,872	92,910	209,782
Acquisition of minority interests	–	–	–	(8,779)	–	–	–	–	(8,779)	(134,530)	(143,309)
Payment of final 2006 dividend	–	–	–	–	–	–	–	(8,394)	(8,394)	–	(8,394)
Interim 2007 dividend	–	–	–	–	–	–	(2,798)	–	(2,798)	–	(2,798)
Proposed final 2007 dividend	–	–	–	–	–	–	(5,596)	5,596	–	–	–
Balance at 30 June 2007	27,980	158,373*	273,606*	(8,779)*	1,938*	2,289*	337,979*	5,596	798,982	1,208	800,190

	Equity attributable to equity holders of the Company									Minority interest	Total equity
	Issued capital	Share premium account	Non-distributable reserve	Other reserve	Exchange fluctuation reserve	Investment revaluation reserve	Retained profits	Proposed final dividend	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
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, associates and jointly controlled entities	–	–	–	–	3,108	–	–	–	3,108	–	3,108
Change in fair value of available-for-sale financial assets	–	–	–	–	–	(465)	–	–	(465)	–	(465)
Net income recognised directly in equity	–	–	–	–	3,108	(465)	–	–	2,643	–	2,643
Profit for the year	–	–	–	–	–	–	83,477	–	83,477	3,611	87,088
Total recognised income and expense for the year	–	–	–	–	3,108	(465)	83,477	–	86,120	3,611	89,731
Deregistration of subsidiaries	–	–	–	–	–	–	–	–	–	66	66
Dividend paid to minority shareholders	–	–	–	–	–	–	–	–	–	(3,020)	(3,020)
Payment of final 2007 dividend	–	–	–	–	–	–	–	(5,596)	(5,596)	–	(5,596)
Interim 2008 dividend	–	–	–	–	–	–	(2,798)	–	(2,798)	–	(2,798)
Proposed final 2008 dividend	–	–	–	–	–	–	(4,197)	4,197	–	–	–
Balance at 30 June 2008	27,980	158,373*	273,606*	(8,779)*	5,046*	1,824*	414,461*	4,197	876,708	1,865	878,573

* These reserve accounts comprise the consolidated reserves of HK$844,531,000 (2007: HK$765,406,000) in the consolidated balance sheet.

Notes to Financial Statements

For the year ended 30 June 2008

1. GENERAL INFORMATION

Continental Holdings Limited (the "Company") is a limited company incorporated and domiciled in Hong Kong. The address of its registered office is Flats M & N, 1st Floor, Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (the "Group") are principally engaged in the following activities:

– Design, manufacturing, marketing and trading of fine jewellery and diamonds

– Property investment

– Investment

Subsequent to the balance sheet date, upon completion of a very substantial acquisition of the entire equity interest in Precious Palace International Limited, 50.13% of the Company's shares are held by Tamar Investments Group Limited, a company incorporated in the British Virgin Islands. Details of this transaction have been set out in the Company's circular dated 27 August 2008 and the Company's announcement dated 16 September 2008. In the opinion of the directors, the Company's ultimate holding company as at the approval date of these financial statements is Tamar Investments Group Limited.

The financial statements on pages 46 to 162 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the requirements of the Hong Kong Companies Ordinance. The financial statements also include the applicable disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The financial statements for the year ended 30 June 2008 were approved for issue by the board of directors on 13 October 2008.

2. ADOPTION OF NEW OR AMENDED HKFRSs

2.1 Impact of new or revised HKFRSs which are effective during the year

In the current year, the Group has applied, for the first time, the following new standards, amendment and interpretations (the "new HKFRSs") issued by the HKICPA, which are relevant to and effective for the Group's financial statements beginning on 1 July 2007.

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

The adoption of the new HKFRSs had no material effect on how the results and financial position for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment is required.

HKAS 1 (Amendment) Presentation of Financial Statements – Capital Disclosures

In accordance with the HKAS 1 (Amendment) Presentation of Financial Statements – Capital Disclosures, the Group now reports on its capital management objectives, policies and procedures in each annual financial report. The new disclosures that become necessary due to this change in HKAS 1 are set out in note 42.

HKFRS 7 – Financial Instruments: Disclosures

HKFRS 7 – Financial Instruments: Disclosures is mandatory for reporting periods beginning on 1 January 2007 or later. The new standard replaces and amends the disclosure requirements previously set out in HKAS 32 Financial Instruments: Presentation and Disclosures and has been adopted by the Group in its consolidated financial statements for the year ended 30 June 2008. All disclosures relating to financial instruments including the comparative information have been updated to reflect the new requirements. In particular, the Group's financial statements now feature:

– a sensitivity analysis explaining the Group's market risk exposure in regard to its financial instruments, and

– a maturity analysis that shows the remaining contractual maturities of financial liabilities,

each as at the balance sheet date. The first-time application of HKFRS 7, however, has not resulted in any prior-period adjustments on cash flows, net income or balance sheet line items.

2.2 Impact of new and revised HKFRSs that have been issued but are not yet effective

The Group has not early adopted the following standards or interpretations that have been issued but are not yet effective.

HKAS 1 (Revised)	Presentation of Financial Statements[1]
HKAS 23 (Revised)	Borrowing Costs[1]
HKAS 27 (Revised)	Consolidated and Separate Financial Statements[2]
HKAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[1]
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations[1]
HKFRS 3 (Revised)	Business Combinations[2]
HKFRS 8	Operating Segments[1]
HK(IFRIC) – Int 12	Service Concession Arrangements[3]
HK(IFRIC) – Int 13	Customer Loyalty Programmes[4]
HK(IFRIC) – Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction[3]
HK(IFRIC) – Int 15	Agreements for the Construction of Real Estate[1]
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation[5]

Note:

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

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

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

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

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

Among these new standards and interpretations, HKAS 1 (Revised) is expected to be relevant to the Group's financial statements.

HKAS 1 (Revised) Presentation of Financial Statements

This amendment affects the presentation of owner changes in equity and introduces a statement of comprehensive income. The Group will have the option of presenting items of income and expenses and components of other comprehensive income either in a single statement of comprehensive income with subtotals, or in two separate statements (a separate income statement followed by a statement of other comprehensive income). The amendment does not affect the financial position or results of the Group but will give rise to additional disclosures. Management is currently assessing the detailed impact of this revised standard on the Group's financial statements.

The directors of the Company are currently assessing the impact of the other new or revised HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared on the historical cost basis except for investment properties and certain financial assets, which are stated at fair values. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The area involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 4.

3.2 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 30 June each year.

3.3 Subsidiaries

Subsidiaries are entities (including special purpose entities) over which the Group has the power to control the financial and operating policies so as to obtain benefits from their activities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are excluded from consolidation from the date that control ceases.

Business combinations (other than for combining entities under common control) are accounted for by applying the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated in preparing the consolidated financial statements. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

In the Company's balance sheet, subsidiaries are carried at cost less any impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

Minority interest represents the portion of the profit or loss and net assets of a subsidiary attributable to equity interests that are not owned by the Group and are not the Group's financial liabilities.

Minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company. Profit or loss attributable to the minority interests are presented separately in the consolidated income statement as an allocation of the Group's results. Where losses applicable to the minority exceeds the minority interests in the subsidiary's equity, the excess and further losses applicable to the minority are allocated against the minority interest to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses. Otherwise, the losses are charged against the Group's interests. If the subsidiary subsequently reports profits, such profits are allocated to the minority interest only after the minority's share of losses previously absorbed by the Group has been recovered.

3.4 Associates

Associates are those entities over which the Group is able to exert significant influence, generally accompanying a shareholding of between 20% and 50% of voting rights but which are neither subsidiaries nor investment in a joint venture. In consolidated financial statements, investment in associates is initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the associate is carried at cost and adjusted for the post-acquisition changes in the Group's share of the associate's net assets less any identified impairment loss, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associate for the year, including any impairment loss on goodwill relating to the investment in associate recognised for the year.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate. For this purpose, the Group's interest in the associate is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of acquisition is recognised as goodwill. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the Group, plus any costs directly attributable to the investment.

The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of the investment. After the application of equity method, the Group determines whether it is necessary to recognise an additional impairment loss on the Group's investment in its associates. At each balance sheet date, the Group determines whether there is any objective evidence that the investment in associate is impaired. If such indications are identified, the Group calculates the amount of impairment as being the difference between the recoverable amount (see note 3.12) of the associate and its carrying amount.

Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in the income statement in the determination of the Group's share of the associate's profit or loss in the period in which the investment is acquired.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the associate uses accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made, where necessary, to conform the associate's accounting policies to those of the Group when the associate's financial statements are used by the Group in applying the equity method.

In the Company's balance sheet, investments in associates are stated at cost less any impairment. The results of associates are accounted for by the Company on the basis of dividends received and receivable.

3.5 Joint ventures

A joint venture is a contractual arrangement whereby two or more parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

In consolidated financial statements, investment in jointly controlled entities are initially recognised at cost and subsequently accounted for using the equity method. Under the equity method, the Group's interest in the jointly controlled entities are adjusted for the post-acquisition changes in the Group's share of the jointly controlled entity's net assets unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the jointly controlled entities for the year, including any impairment loss on goodwill relating to the investment in jointly controlled entities recognised for the year.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entities. For this purpose, the Group's interest in the jointly controlled entities are the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the jointly controlled entities.

Unrealised gains on transactions between the Group and its jointly controlled entities are eliminated to the extent of the Group's interest in the jointly controlled entities. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where the jointly controlled entities use accounting policies other than those of the Group for like transactions and events in similar circumstances, adjustments are made to conform the associate's accounting policies to those of the Group when the jointly controlled entities' financial statements are used by the Group in applying the equity method.

3.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars ("HK$"), which is also the functional currency of the Company.

In the individual financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. At balance sheet date, monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the balance sheet date. Foreign exchange gains and losses resulting from the settlement of such transactions and from the balance sheet date retranslation of monetary assets and liabilities are recognised in the income statement.

Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined and are reported as part of the fair value gain or loss. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

In the consolidated financial statements, all individual financial statements of foreign operations, originally presented in a currency different from the Group's presentation currency, have been converted into HK$. Assets and liabilities have been translated into HK$ at the closing rates at the balance sheet date. Income and expenses have been converted into HK$ at the exchange rates ruling at the transaction dates, or at the average rates over the reporting period provided that the exchange rates do not fluctuate significantly. Any differences arising from this procedure have been dealt with separately in the exchange fluctuation reserve in equity.

Other exchange differences arising from the translation of the net investment in foreign entities are taken to shareholders' equity. When a foreign operation is disposed of, such exchange differences are recognised in the income statement as part of the gain or loss on disposal.

3.7 Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably, on the following bases:

(i) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold. This is usually taken as the time when the goods are delivered and the customer has accepted the goods;

(ii) rental income, on a time proportion basis over the lease terms;

(iii) interest income, on a time proportion basis using the effective interest method; and

(iv) dividend income, when the shareholder's right to receive payment is established.

3.8 Borrowing costs

All borrowing costs are expensed as incurred.

3.9 Goodwill

Set out below are the accounting policies on goodwill arising on acquisition of a subsidiary. Accounting for goodwill arising on acquisition of investment in an associate is set out in note 3.4.

Goodwill represents the excess of the cost of a business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of the business combination is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group, plus any costs directly attributable to the business combination or investment.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 3.12).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination is recognised immediately in profit or loss.

On subsequent disposal of a subsidiary, the attributable amount of goodwill capitalised is included in the determination of the amount of gain or loss on disposal.

3.10 Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other costs, such as repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Factory buildings	Over the term of the leases or estimated useful lives of 25 years, whichever is shorter
Commercial buildings	Over the term of the leases or estimated useful lives of 33 years, whichever is shorter
Leasehold improvements	Over the term of the leases or estimated useful lives of 4 years, whichever is shorter
Plant and machinery	10%-33%
Furniture, fixtures and equipment	17%
Motor vehicles	25%

The depreciation method, assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

The gain or loss on disposal or retirement of an asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents asset under construction and is carried at cost less any accumulated impairment losses, and is not depreciated. Cost comprises direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment and depreciation commences when the construction work is completed and the asset is ready for use.

3.11 Investment property

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use.

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it was held under a finance lease.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at fair value. Fair value is determined by external professional valuers, with sufficient experience with respect to both the location and the nature of the investment property. The carrying amounts recognised in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Gains or losses arising from either changes in the fair value or the sale of an investment property is included in the income statement for the period in which they arise.

3.12 Impairment of assets

Goodwill arising on an acquisition of subsidiary, property, plant and equipment, leasehold land/land use rights, interests in subsidiaries, associates and jointly controlled entities are subject to impairment testing.

Goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other assets are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which the goodwill is monitored for internal management purpose.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.13 Leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges as the lessee

Where the Group has the right to use the assets held under operating leases, payments made under the leases are charged to the income statement on a straight-line basis over the lease terms except where an alternative basis is more representative of the time pattern of benefits to be derived from the leased assets. Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made.

(iii) Assets leased out under operating leases as the lessor

Assets leased out under operating leases are measured and presented according to the nature of the assets. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the rental income.

Rental income receivable from operating leases is recognised in profit or loss on a straight-line basis over the periods covered by the lease term, except where an alternative basis is more representative of the time pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

3.14 Financial assets

The Group's accounting policies for financial assets other than investments in subsidiaries, associates and jointly controlled entities are set out below.

Financial assets are classified into the following categories:

– financial assets at fair value through profit or loss

– loans and receivables

– available-for-sale financial assets

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Group becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. At each balance sheet date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, impairment loss is determined and recognised based on the classification of the financial asset.

(i) Financial assets or liabilities at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at fair value through profit or loss, except where the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at fair value through profit or loss if the following criteria are met:

– the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognising gains or losses on them on a different basis; or

– the assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy and information about the group of financial assets is provided internally on that basis to the key management personnel; or

– the financial asset contains an embedded derivative that would need to be separately recorded.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost.

(iii) Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. All financial assets within this category are subsequently measured at fair value. Gain or loss arising from a change in the fair value is recognised directly in equity, except for impairment losses (see the policy below) and foreign exchange gains and losses on monetary financial assets, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in equity would be recognised in the income statement. Interest calculated using the effective interest method is recognised in the income statement. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement.

For available-for-sale investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at each balance sheet date subsequent to initial recognition.

Impairment of financial assets

At each balance sheet date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment. If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in the income statement in the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in the income statement in the period in which the reversal occurs.

(ii) Available-for-sale financial assets

When a decline in the fair value of an available-for-sale financial asset has been recognised directly in equity and there is objective evidence that the asset is impaired, an amount is removed from equity and recognised in the income statement as impairment loss.

That amount is measured as the difference between the asset's acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in the income statement.

Reversals in respect of investment in equity instruments classified as available-for-sale are not recognised in the income statement. The subsequent increase in fair value is recognised directly in equity. Impairment losses in respect of debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversal of impairment losses in such circumstances are recognised in the income statement.

(iii) Financial assets carried at cost

The amount of impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed in subsequent periods.

3.15 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on the estimated selling prices less any estimated costs to be incurred to completion and disposal.

3.16 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting period, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of income tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

3.17 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, demand deposits with banks and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value. For the purpose of cash flow statement presentation, cash and cash equivalents include bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

3.18 Share capital and share premium

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Share premium includes any premiums received on the issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium (net of any related income tax benefit) to the extent they are incremental costs directly attributable to the equity transaction.

3.19 Employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' relevant income and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to the MPF Scheme becoming effective, the Group operated a defined contribution retirement benefits scheme (the "Prior Scheme") for those employees who were eligible to participate in this scheme. The Prior Scheme operated in a similar way to the MPF Scheme, except that when an employee left the Prior Scheme before his/her interest in the Group's employer contributions vested fully, the ongoing contributions payable by the Group were reduced by the relevant amount of the forfeited employer's contributions.

The employees of the subsidiaries which operate in the People's Republic of China except Hong Kong and Macau ("Mainland China") are required to participate in a retirement benefits scheme (the "RB Scheme") operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll to the RB Scheme to fund the benefits. The only obligation of the Group with respect to the RB Scheme is to pay the ongoing required contributions under the RB Scheme. Contributions under the RB Scheme are charged to the income statement as they become payable in accordance with the rules of the RB Scheme.

Short-term employee benefits

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Non-accumulating compensated absences are not recognised until the time of leave.

3.20 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, accruals, trade and other payables, balances with associates, jointly controlled entities and a related party and loans from minority shareholders. They are included in balance sheet line items as "Trade payables", "Bank loans and overdrafts, secured", "Due to associates", "Due to a related party", "Due to jointly controlled entities", "Loans from minority shareholders" and "Other payables and accruals".

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in the income statement.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amount is recognised in the income statement.

(a) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(b) Other financial liabilities

Other financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

3.21 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

3.22 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts in the scope of HKAS 39 are accounted for as financial liabilities. A financial guarantee contract is recognised initially at its fair value plus transactions costs that are directly attributable to the acquisition or issue of the financial guarantee contract, except when such contract is recognised at fair value through profit or loss. Subsequent to initial recognition, the Group measures the financial guarantee contract at higher of: (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

3.23 Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

3.24 Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

In respect of business segment reporting, unallocated costs include corporate expenses and other expenses that cannot be allocated on a reasonable basis to the reportable segments. Segment assets consist primarily leasehold land/land use rights, investment properties, property, plant and equipment, inventories, receivables and operating cash. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

In respect of geographical segment reporting, revenue is based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

3.25 Related parties

Parties are considered to be related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the Group:

- controls, is controlled by, or is under common control with, the entity;
- has an interest in the entity that gives it significant influence over the entity;
- has joint control over the entity;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its parent;

(v) the party is a close member of the family or any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Fair value of investment properties

The investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 3.11. The fair value of the investment properties are determined by an independent professional valuer, Chung, Chan & Associates, and the fair value of investment properties are set out in note 17 to the financial statements. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results.

In making the judgement, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the balance sheet date. These estimates are regularly compared to actual market data and actual transactions in the market.

Estimation of impairment losses of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant and/or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectability and aging analysis of accounts and on management's judgment. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the collateral security and the past collection history of each client. If the financial conditions of client of the Group, on whose account provision for impairment has been made, were improved and no impairment of their ability to make payments were noted, reversal of provision for impairment may be required.

Estimate of current tax and deferred tax

The Group is subjected to taxation in various jurisdictions. Significant judgement is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which such determination are made.

During the year and up to the date of these financial statements, the Inland Revenue Department ("IRD") of Hong Kong is in the process of reviewing the tax affairs of certain subsidiaries of the Group. After taking into account the development of the IRD's review to date, the directors of the Company are of the opinion that the Group's tax provision is fairly presented. As at 30 June 2008, in relation to the aforementioned IRD's review, the Group has purchased a tax reserve certificate amounting to approximately HK$11.62 million.

During the year, the Company and a subsidiary were selected for a field audit by the IRD. The field audit is at a preliminary stage and after taking into account the development of the IRD's field audit to date, the directors of the Company are of the opinion that there should not be any material impact on the Company's and the Group's tax positions.

Provision for inventories

In determining the amount of allowance required for obsolete and slow-moving inventories, the Group would evaluate ageing analysis of inventories and compare the carrying value of inventories to their respective net realisable value. A considerable amount of judgement is required in determining such allowance. If conditions which have impact on the net realisable value of inventories deteriorate, additional allowances may be required.

5. 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 and assets are attributed to the segments based on the location of the assets.

(a) Business segment

The following tables present revenue, profit and certain asset, liability and expenditure information for the Group's business segments.

	Design, manufacturing, marketing and trading of fine jewellery and diamonds		Property investment		Investment		Consolidated	
	2008	2007	2008	2007	2008	2007	2008	2007
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Segment revenue:								
Sales to/revenue from external parties	1,462,746	1,594,786	31,464	31,883	3,472	5,511	1,497,682	1,632,180
Segment results	24,250	34,558	108,025*	241,425*	(2,518)	2,146	129,757	278,129
Unallocated expenses							(6,416)	(2,463)
Profit from operations							123,341	275,666
Finance costs							(19,733)	(17,636)
Share of results of associates							(681)	(550)
Share of results of jointly controlled entities							(1,854)	2,314
Profit before income tax							101,073	259,794
Income tax expense							(13,985)	(52,898)
Profit for the year							87,088	206,896
Segment assets	619,230	640,983	753,748	778,287	27,369	41,851	1,400,347	1,461,121
Interests in associates							3,606	4,029
Interests in jointly controlled entities							131,978	96,969
Unallocated assets							137,842	120,912
Total assets							1,673,773	1,683,031
Segment liabilities	236,222	250,733	9,765	152,059	354	304	246,341	403,096
Bank loans and overdrafts, secured							463,279	358,779
Unallocated liabilities							85,580	120,966
Total liabilities							795,200	882,841
Other segment information:								
Depreciation	8,855	10,156	112	112	59	56	9,026	10,324
Amortisation on leasehold land/land use rights	239	239	–	–	–	–	239	239
Non-cash expenses	17,408	5,827	–	–	–	11,827	17,408	17,654
Capital expenditure	7,459	5,242	–	78,190	–	357	7,459	83,789

* *The changes in fair value of investment properties of HK$81,445,000 (2007: HK$216,765,000) were included in the segment results of the business segment of "Property investment".*

(b) Geographical segment

(i) The following table provides an analysis of the Group's revenue by geographical market, irrespective of the origin of the goods and services.

	Sales revenue by geographical market	
	2008	**2007**
	HK$'000	*HK$'000*
North America	762,303	780,589
Europe	499,675	611,870
Hong Kong	225,828	222,039
Other locations	9,876	17,682
	1,497,682	1,632,180

(ii) The following is an analysis of the carrying amount of segment assets and capital expenditure, analysed by the geographical area in which the segment assets are located.

	Carrying amount of segment assets		Capital expenditure	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
North America	132,222	143,513	–	–
Europe	107,168	118,584	1,536	92
Hong Kong	937,098	981,961	318	79,904
Mainland China	218,971	212,852	5,605	3,776
Other locations	4,888	4,211	–	17
	1,400,347	1,461,121	7,459	83,789

6. 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:

	2008	**2007**
	HK$'000	*HK$'000*
Sale of goods	1,462,746	1,594,786
Gross rental income	31,464	31,883
Interest income	2,780	4,404
Dividend income from investments	692	1,107
	1,497,682	1,632,180

7. FINANCE COSTS

	2008	**2007**
	HK$'000	*HK$'000*
Interest expense on bank loans and overdrafts wholly repayable within five years	2,782	2,715
Interest expense on bank loans repayable over five years	16,951	14,921
	19,733	17,636

8. PROFIT BEFORE INCOME TAX

	2008 HK$'000	2007 HK$'000
The Group's profit before income tax is arrived at after charging/ (crediting):		
Cost of inventories sold	1,292,926	1,387,891
Gross rental income from investment properties	(31,464)	(31,883)
Outgoings in respect of investment properties	2,668	1,986
Net rental income from investment properties	(28,796)	(29,897)
Depreciation of property, plant and equipment *(note 15)*	9,026	10,324
Amortisation of leasehold land/land use rights *(note 16)*	239	239
Minimum lease payments under operating leases on land and buildings	5,171	6,683
Auditors' remuneration	997	782
(Write back)/Provision against inventories*	(3,342)	2,497
Fair value losses/(gains) on derivative financial instruments		
– forward currency contracts	–	(312)
– interest rate swap contracts	39	522
Provision for impairment of property, plant and equipment *(note 15)* **	–	2,629
Net foreign exchange gains	(2,197)	(5,690)
Impairment loss on available-for-sale financial assets	3,865	146
Provision/(Write back) for long-term receivables	1,195	(363)
Provision for impairment on an amount due from a jointly controlled entity *(note 20)*	–	11,670
Gain on disposal of leasehold land/land use rights	(3)	–
Loss/(Gain) on disposal of property, plant and equipment	45	(104)
Bad debts written off	2,227	81
Amount due from an associate written off	1,070	620
Provision/(Write back) for trade receivables	9,006	(5,088)
Write back of long outstanding payables	(1,232)	–
Write back of amount due to a related party	(103)	–

* (Write back)/Provision against inventories for the year was included in "cost of sales" on the face of the consolidated income statement.

** The provision for impairment of property, plant and equipment was included in "other operating expenses" on the face of the consolidated income statement.

9. INCOME TAX EXPENSE

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the applicable rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

	2008	2007
	HK$'000	*HK$'000*
Current tax		
Hong Kong	10,108	8,982
Over provision in prior years	(9,554)	(137)
	554	8,845
Deferred tax *(note 32)*		
Current year	15,982	44,053
Attributable to decrease in tax rate	(2,551)	–
	13,431	44,053
Total tax charge for the year	13,985	52,898

The Hong Kong SAR Government enacted a reduction in the Profits Tax Rate from 17.5% to 16.5% with effect from the year of assessment 2008/09. Accordingly, the relevant profits tax and deferred tax liabilities have been calculated using the new tax rate of 16.5%.

Reconciliation between tax expense and accounting profit at applicable tax rates:

	2008	2007
	HK$'000	*HK$'000*
Profit before income tax	101,073	259,794
Tax on profit before taxation, calculated at the statutory rate of 16.5% (2007: 17.5%)	16,677	45,464
Effect of different tax rates of subsidiaries operating in other jurisdictions	(2,261)	(759)
Tax effect of share of results of associates	112	96
Tax effect of share of results of jointly controlled entities	306	(405)
Tax effect of non-deductible expenses	1,950	5,093
Tax effect of non-taxable revenue	(4,946)	(2,395)
Tax effect of prior years' tax losses utilised this year	(844)	(497)
Tax effect of temporary differences recognised this year	9,366	–
Tax effect of temporary differences not recognised	58	3,679
Tax effect of tax losses not recognised	5,672	2,759
Effect on opening deferred balances resulting from a decrease in tax rate during the year	(2,551)	–
Over provision in prior years	(9,554)	(137)
Tax charge for the year	13,985	52,898

10. PROFIT ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

Of the consolidated profit attributable to the equity holders of the Company of HK$83,477,000 (2007: HK$113,986,000), a profit of HK$19,299,000 (2007: HK$21,399,000) has been dealt with in the financial statements of the Company.

11. DIVIDENDS

(a) Dividends payable to the equity holders of the Company attributable to the year:

	2008	**2007**
	HK$'000	*HK$'000*
Interim – HK$0.010 (2007: HK$0.010) per ordinary share	2,798	2,798
Proposed final – HK$0.015 (2007: HK$0.020) per ordinary share	4,197	5,596
	6,995	8,394

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date, but reflected as an appropriation of retained profits for the year ended 30 June 2008.

(b) Dividends payable to the equity holders of the Company attributable to the previous financial year, approved and paid during the year:

	2008	**2007**
	HK$'000	*HK$'000*
Final dividend in respect of the previous financial year, approved and paid during the year, of HK$0.020 per ordinary share (2007: HK$0.030 per ordinary share)	5,596	8,394

12. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the net profit attributable to the equity holders of the Company for the year of HK$83,477,000 (2007: HK$113,986,000), and 279,800,031 (2007: 279,800,031) ordinary shares in issue during the year.

No diluted earnings per share amounts are shown as the Company has no potential ordinary shares for the years ended 30 June 2008 and 2007.

13. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS – NOTE 14)

	2008	**2007**
	HK$'000	*HK$'000*
Wages and salaries	94,045	98,750
Pension costs – defined contribution plans	5,836	5,339
Less: Forfeited contributions	(25)	(16)
	99,856	104,073

14. DIRECTORS' REMUNERATION AND SENIOR MANAGEMENT'S EMOLUMENTS

Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance is as follows:

	Group 2008	Group 2007
	HK$'000	*HK$'000*
Fees:		
Independent non-executive directors	217	200
Other executive directors' emoluments:		
Salaries, allowances and benefits in kind	5,345	5,276
Bonus	2,492	2,374
Retirement scheme contributions	241	237
	8,078	7,887
	8,295	8,087

Save as disclosed above, none of the executive, non-executive or independent non-executive directors received any fees or other reimbursements or emoluments for both years.

The emoluments of each director, on a named basis, for the years ended 30 June 2008 and 2007 are set out below:

2008	Fees	Salaries, allowances and benefits in kind	Bonus	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Chan Sing Chuk, Charles	–	3,500	890	158	4,548
Cheng Siu Yin, Shirley	–	960	1,020	43	2,023
Chan Wai Kei, Vicki	–	435	275	20	730
Chan Wai Lap, Victor	–	450	307	20	777
Non-executive directors:					
Chu Wai Kok	50	–	–	–	50
Leung Hai Ming, Raymond *(note a)*	50	–	–	–	50
Independent non-executive directors:					
Wong Kai Cheong	50	–	–	–	50
Yu Shiu Tin, Paul	50	–	–	–	50
Chan Ping Kuen, Derek *(note b)*	17	–	–	–	17
Total 2008	217	5,345	2,492	241	8,295

	2007				
	Fees	Salaries, allowances and benefits in kind	Bonus	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors:					
Chan Sing Chuk, Charles	–	3,500	710	158	4,368
Cheng Siu Yin, Shirley	–	960	1,118	43	2,121
Chan Wai Kei, Vicki	–	408	278	18	704
Chan Wai Lap, Victor	–	408	268	18	694
Non-executive director:					
Chu Wai Kok	50	–	–	–	50
Independent non-executive directors:					
Leung Hai Ming, Raymond	50	–	–	–	50
Wong Kai Cheong	50	–	–	–	50
Yu Shiu Tin, Paul	50	–	–	–	50
Total 2007	200	5,276	2,374	237	8,087

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

Note:

(a) Leung Hai Ming, Raymond has redesignated from independent non-executive director to non-executive director of the Company on 28 December 2007 and has resigned as non-executive director of the Company on 10 October 2008.

(b) Chan Ping Kuen, Derek was appointed as an independent non-executive director of the Company on 7 March 2008.

Five highest paid individuals

The five highest paid individuals during the year included three (2007: two) directors, details of whose emoluments are set out above. Details of the emoluments of the remaining two (2007: three) non-directors, highest paid individuals are as follows:

	Group	
	2008	2007
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	2,552	2,842
Retirement scheme contributions	30	55
Bonus	126	390
	2,708	3,287

The number of non-directors, highest paid individuals whose emoluments fell within the following bands is as follows:

	Number of individuals	
	2008	**2007**
Nil – HK$1,000,000	1	2
HK$1,000,001 to HK$1,500,000	1	1
	2	3

During the year, no emoluments were paid by the Group to the two highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office.

15. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and leasehold improvements *HK$'000*	**Plant and machinery** *HK$'000*	**Furniture, fixtures, equipment and motor vehicles** *HK$'000*	**Construction in progress** *HK$'000*	**Total** *HK$'000*
At 30 June 2006					
Cost	64,006	56,134	42,651	–	162,791
Accumulated depreciation and impairment	(33,358)	(43,055)	(31,698)	–	(108,111)
Net book amount	30,648	13,079	10,953	–	54,680
Year ended 30 June 2007					
Opening net book amount	30,648	13,079	10,953	–	54,680
Additions	2,086	1,247	2,266	–	5,599
Disposals	(145)	(10)	(173)	–	(328)
Depreciation	(3,064)	(3,235)	(4,025)	–	(10,324)
Impairment	(1,003)	(1,098)	(528)	–	(2,629)
Exchange realignment	822	667	522	–	2,011
Closing net book amount	29,344	10,650	9,015	–	49,009
At 30 June 2007					
Cost	67,468	58,524	45,557	–	171,549
Accumulated depreciation and impairment	(38,124)	(47,874)	(36,542)	–	(122,540)
Net book amount	29,344	10,650	9,015	–	49,009
Year ended 30 June 2008					
Opening net book amount	29,344	10,650	9,015	–	49,009
Additions	498	1,544	2,771	2,646	7,459
Disposals	(128)	(352)	(158)	–	(638)
Depreciation	(3,191)	(1,817)	(4,018)	–	(9,026)
Exchange realignment	2,660	807	452	–	3,919
Closing net book amount	29,183	10,832	8,062	2,646	50,723
At 30 June 2008					
Cost	64,469	60,946	47,334	2,646	175,395
Accumulated depreciation and impairment	(35,286)	(50,114)	(39,272)	–	(124,672)
Net book amount	29,183	10,832	8,062	2,646	50,723

At 30 June 2008, the Group's certain buildings with a net book amount of approximately HK$17,733,000 (2007: HK$2,118,000) were pledged to secure general banking facilities granted to the Group (note 31).

16. LEASEHOLD LAND/LAND USE RIGHTS

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Opening net carrying amount	9,538	9,777
Amortisation charge for the year	(239)	(239)
Disposal	(180)	–
Closing net carrying amount	9,119	9,538

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	2008	**2007**
	HK$'000	*HK$'000*
In Hong Kong held on:		
Medium-term lease of between 10 to 50 years	3,781	3,878
Outside Hong Kong, held on:		
Long-term lease of over 50 years	248	256
Medium-term lease of between 10 to 50 years	5,090	5,404
	9,119	9,538

At 30 June 2008, the Group's certain leasehold land/land use rights with carrying amount of HK$6,839,000 (2007: HK$7,013,000) were pledged to secure general banking facilities granted to the Group (note 31).

17. INVESTMENT PROPERTIES

All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

Changes to the carrying amounts presented in the consolidated balance sheet can be summarised as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Carrying amount at beginning of the year	775,955	467,800
Additions	–	91,390
Disposals	(105,000)	–
Net gain from fair value adjustments	81,445	216,765
Carrying amount at end of the year	752,400	775,955

The Group's investment properties are situated in Hong Kong and are held under medium term leases.

The Group's investment properties were revalued on 30 June 2008 by Chung, Chan & Associates, an independent firm of chartered surveyors, at HK$752,400,000 (2007: HK$775,955,000) on an open market existing use basis by reference to market prices for similar properties. A fair value adjustment on revaluation of HK$81,445,000 (2007: HK$216,765,000) arising therefrom was credited to the consolidated income statement for the year.

At 30 June 2008, the Group's investment properties with carrying amount of HK$752,400,000 (2007: HK$775,955,000) were pledged to secure general banking facilities granted to the Group (note 31).

18. INTERESTS IN SUBSIDIARIES

	Company	
	2008	**2007**
	HK$'000	*HK$'000*
Unlisted shares, at cost	95,261	95,261
Deemed capital contribution	173,710	173,710
Provision for impairment	(25,037)	(25,037)
	243,934	243,934
Due from subsidiaries	430,372	415,095
Provision against amounts due from subsidiaries	(102,000)	(102,000)
	328,372	313,095
	572,306	557,029
Due from a subsidiary classified as current assets	47,986	52,300

The balances with subsidiaries are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date, except for an amount due from a subsidiary of HK$47,986,000 (2007: HK$52,300,000) which is repayable on demand.

Particulars of the principal subsidiaries as at 30 June 2008 are as follows:

Name	Place of incorporation/ registration and operations	Nominal value of paid-up registered/ issued share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
Amco Jewelry Limited	Hong Kong	2 ordinary shares of HK$10 each	100	–	Diamond trading and polishing
Anglesey Jewellery Manufacturing Limited	Hong Kong	100,000 ordinary shares of HK$10 each	–	100	Diamond trading and polishing
Brangredi Limited	Hong Kong	1 ordinary share of HK$1 each	–	100	Jewellery trading
C.J. (UK) Limited*	United Kingdom	1,000 ordinary shares of GBP1 each	–	100	Jewellery wholesaling
Conti Diamond Limited	Hong Kong	10,000 ordinary shares of HK$1 each	–	100	Diamond trading and polishing
Continental Diamond (Jiangmen) Co. Ltd#	Mainland China	Paid up capital of HK$7,497,760	–	100	Diamond trading and polishing
Continental Investment Company Limited	Hong Kong	100,000 ordinary shares of HK$1 each	100	–	Investment holding
Continental Jewellery (Jiangmen) Co. Ltd#	Mainland China	Paid up capital of HK$26,370,530	–	100	Jewellery manufacturing

Name	Place of incorporation/ registration and operations	Nominal value of paid-up registered/ issued share capital	Percentage of equity attributable to the Company Direct	Indirect	Principal activities
Continental Jewellery (Mfg.) Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	100	–	Jewellery manufacturing and wholesaling
Continental Property Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	–	100	Property investment
Crystal Gain Developments Limited	British Virgin Islands	100 ordinary shares of US$1 each	–	100	Property investment
DCGS Management Service Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	–	100	Investment holding/ providing management services
Diamond Creation Limited	Hong Kong	500,000 ordinary shares of HK$1 each	100	–	Investment holding
Jestar Trading Limited*	Hong Kong	100,000 ordinary shares of HK$1 each	–	100	Investment holding
Man Yue Jewelry (Factory) Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	–	100	Diamond trading and polishing
Master Gold Development Limited	British Virgin Islands	1 ordinary share of US$1 each	–	100	Investment holding
Ming Xiu Diamond Cutting Factory Limited	Hong Kong	600,000 ordinary shares of HK$10 each	100	–	Investment holding
Ming Xiu Diamond Cutting Factory (Panyu) Limited#	Mainland China	Paid up capital of HK$11,000,000	–	100	Diamond trading and polishing
Optik Technologies Limited	Hong Kong	117,000,000 ordinary shares of HK$0.1 each	100	–	Information technology servicing
Patford Company Limited	Hong Kong	100 ordinary shares of HK$100 each	–	100	Property investment
Poly Jade Development Limited	Hong Kong	100 ordinary shares of HK$1 each	–	60	Property investment
Realford Company Limited	Hong Kong	100 ordinary shares of HK$100 each	–	100	Property investment
Vieway Investments Group Limited	British Virgin Islands	2 ordinary shares of US$1 each	100	–	Investment holding
Wilber Corporate Services Limited	Hong Kong	78,000 ordinary shares of HK$1	–	100	Investment holding/ providing corporate services
Yett Holdings Limited	British Virgin Islands	100 ordinary shares of US$1 each	100	–	Investment holding

Wholly foreign-owned enterprise registered in the Mainland China

* Not audited by Grant Thornton Hong Kong or other Grant Thornton International member firms. The aggregate net assets of subsidiaries not audited by Grant Thornton amounted to approximately 1% of the Group's total net assets.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19. INTERESTS IN ASSOCIATES

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Unlisted shares, at cost	–	–	9,387	9,387
Share of net assets	7,504	7,927	–	–
Provision for impairment	(3,898)	(3,898)	(9,387)	(9,385)
	3,606	4,029	–	2

Balances with associates

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Due from associates	1,752	2,735	8	8
Provision for impairment	(1,259)	(2,219)	–	–
	493	516	8	8
Due to associates	(538)	(607)	–	–

Movement for impairment provision of amounts due from associates are as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at beginning of the year	2,219	1,599	–	–
Impairment losses recognised	–	620	–	–
Amount written off	(960)	–	–	–
Balance at end of the year	1,259	2,219	–	–

The balances with associates are unsecured, interest-free and repayable on demand.

The summarised financial information of the Group's associates extracted from their management accounts are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Total assets	25,517	34,460
Total liabilities	(25,100)	(32,944)
Revenue	16,877	25,513
Profit/(Loss) for the year	318	(1,169)

Particulars of the principal associates as at 30 June 2008 are as follows:

Name	Nominal value of paid-up registered/ issued share capital	Place of incorporation/ registration and operations	Percentage of ownership interest attributable to the Group	Principal activities
FDD Limited*	10,000 ordinary shares of HK$1 each	Hong Kong	25	Jewellery trading
General Jewellery (Shanghai) Company Limited*	Paid up capital of RMB9,093,244	Mainland China	36	Jewellery manufacturing and wholesaling
Real Jewellery Limited*	1,000 ordinary shares of HK$1 each	Hong Kong	50	Jewellery manufacturing

* Not audited by Grant Thornton Hong Kong or other Grant Thornton International member firms.

The above table lists the associates of the Company which, in the opinion of the directors, principally affected the share of associates' results for the year or formed a substantial portion of the share of net assets of the associates by the Group. To give details of other associates would, in the opinion of the directors, result in particulars of excessive length.

20. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Share of net assets	1,678	3,669
Loans to jointly controlled entities	141,970	104,970
	143,648	108,639
Less: Provision for impairment	(11,670)	(11,670)
	131,978	96,969

Movement for impairment provision of loan to jointly controlled entities are as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Balance at beginning of the year	11,670	–
Impairment losses recognised	–	11,670
Balance at end of the year	11,670	11,670

The loans to jointly controlled entities are unsecured, interest-free and not repayable within twelve months from the balance sheet date. For the year ended 30 June 2007, in view of the financial performance of a jointly controlled entity, impairment of HK$11,670,000 has been provided.

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Due from a jointly controlled entity	120	2,110
Due to jointly controlled entities	(3)	(39)

The balances with jointly controlled entities are unsecured, interest-free and repayable on demand.

Particulars of the jointly controlled entities as at 30 June 2008 are as follows:

Name	**Nominal value of issued share capital**	**Place of incorporation/ registration and operations**	**Percentage of ownership interest attributable to the Group**	**Principal activities**
Big Edge International Limited	100 ordinary shares of US$1 each	British Virgin Islands	30	Investment
Georland (HK) Limited	1,000,000 ordinary shares of HK$1 each	Hong Kong	50	Dormant
Wealth Plus Developments Limited	50,000 ordinary shares of US$1 each	British Virgin Islands	50	Investment holding

The aggregate amounts relating to the jointly controlled entities attributable to the Group that have been included in the Group's consolidated financial statements are as follows:

	2008	**2007**
	HK$'000	*HK$'000*
Non-current assets	123,300	91,745
Current assets	8,748	7,614
	132,048	99,359
Non-current liabilities	(130,300)	(93,300)
Current liabilities	(70)	(2,390)
	(130,370)	(95,690)
Net assets	1,678	3,669
Income	3,623	5,435
Expenses	(5,477)	(3,121)
(Loss)/Profit after income tax	(1,854)	2,314

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Listed equity investments, at fair value:		
Hong Kong	9,116	8,077
Elsewhere	830	2,334
	9,946	10,411
Unlisted equity investments, at cost*	11,339	11,339
Provision for impairment	(7,108)	(3,243)
	4,231	8,096
Total	14,177	18,507
Market value of listed investments	9,946	10,411

Movement for impairment provision of available-for-sale financial assets are as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Balance at the beginning of the year	3,243	3,097
Impairment losses recognised	3,865	146
Balance at the end of the year	7,108	3,243

* The unlisted equity investments are stated at cost less provision for impairment as they do not have quoted market prices in an active market. The directors are of the opinion that the carrying amounts of the unlisted equity investments approximate their fair value.

22. LONG TERM RECEIVABLES

		Group		Company	
		2008	**2007**	**2008**	**2007**
	Notes	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Promissory notes	*(a)*	14,061	15,366	7,661	8,619
Other long term receivables	*(b)*	24,727	23,533	–	–
		38,788	38,899	7,661	8,619
Provision for impairment		(27,727)	(26,532)	(1,000)	(1,000)
		11,061	12,367	6,661	7,619
Portion classified as current assets		(4,926)	(3,643)	(958)	(958)
		6,135	8,724	5,703	6,661

(a) Out of the promissory notes of HK$14,061,000 as at 30 June 2008 (2007: HK$15,366,000), HK$10,440,000 (2007: HK$11,745,000) is secured, interest-free and repayable by 15 annual instalments commencing on 1 October 2001. The remaining balance of HK$3,621,000 (2007: HK$3,621,000) is unsecured, interest-free and repayable by 13 annual instalments commencing on 15 March 2003.

(b) As at 30 June 2008, the balance represents a shareholder's loan of HK$3,167,000 (2007: HK$3,167,000) advanced to an investee company which is interest-free, unsecured and repayable on 30 June 2015 and a trade receivable balance of HK$21,560,000 (2007: HK$20,366,000), which was interest bearing at 6% per annum, unsecured and repayable on 31 March 2009. In the view of the uncertainty of the repayment of the aforesaid trade receivables, the directors are of the opinion that the said sum was classified as long-term receivables.

Movement for impairment provision of long-term receivables are as follows:

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at the beginning of the year	26,532	28,194	1,000	1,000
Impairment losses recognised	1,195	1,064	–	–
Impairment losses reversed	–	(1,427)	–	–
Amount written off	–	(1,299)	–	–
Balance at the end of the year	27,727	26,532	1,000	1,000

23. INVENTORIES

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Raw materials	178,917	184,826
Work in progress	8,389	11,265
Finished goods	151,267	151,260
	338,573	347,351

24. TRADE RECEIVABLES

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Trade receivables	195,828	211,337
Less: provision for impairment of receivables	(27,083)	(18,077)
Trade receivables – net	168,745	193,260

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

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

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Current	82,269	100,329
31 – 60 days	36,343	27,013
61 – 90 days	17,430	33,025
Over 91 days	32,703	32,893
	168,745	193,260

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers which are internationally dispersed.

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly. The movement in the provision for impairment of trade receivables is as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Balance at the beginning of the year	18,077	23,165
Impairment losses recognised	9,006	–
Impairment losses reversed	–	(5,088)
Balance at the end of the year	27,083	18,077

At each balance sheet date, the Group's trade receivables were individually and collectively determined to be impaired. The individually impaired trade receivables relate to customers that were in default or delinquency in payments.

The ageing analysis of the Group's trade receivables as at the balance sheet date, based on due date and net of provision, is as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Neither past due nor impaired	144,574	132,936
0 – 30 days past due	11,899	14,755
31 – 60 days past due	7,028	20,504
61 – 90 days past due	1,525	3,302
91 – 180 days past due	2,714	18,545
181 – 360 days past due	677	998
Over 360 days past due	328	2,220
	168,745	193,260

Trade receivables that were neither past due nor impaired relate to a large number of diversified customers for whom there was no recent history of default.

Trade receivables that were past due but not impaired related to a large number of diversified customers that had a good track record with the Group. Based on past experience, the management believe that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group did not hold any collateral in respect of trade receivables that are past due but not impaired.

25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Listed equity securities in Hong Kong, at market value	12,763	15,958
Marketable unit funds elsewhere, at fair value	–	6,555
	12,763	22,513

Financial assets at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

Changes in fair value of financial assets at fair value through profit or loss are recorded in other operating expense in the income statement.

26. DERIVATIVE FINANCIAL INSTRUMENTS

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Interest rate swap contracts *(note a)*	–	39

Notes:

(a) The notional principal amounts of the outstanding interest rate swap contracts at 30 June 2007 were HK$50,000,000. As at 30 June 2007, the fixed interest rates of these contracts were 3.98% per annum. The aforesaid interest rate swap contracts matured during the year ended 30 June 2008.

27. CASH AND BANK BALANCES

Cash and bank balances include the following components:

	Group		**Company**	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Cash and bank balances	72,984	66,858	82	85
Short term time deposits	55,884	35,423	–	–
	128,868	102,281	82	85

Cash at banks earn interest at floating rates based on daily bank deposit rates. Short term time deposits are placed with the banks and earn interest at the respective short term bank deposit rates ranging from 1.25% to 5% (2007: 1.95% to 5.196%) per annum. They have a maturity ranging from 7 days to 1 month and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in cash and bank balances of the Group is HK$10,077,000 (2007: HK$5,282,000) of bank balances denominated in Renminbi ("RMB") placed with banks in the Mainland China. RMB is not a freely convertible currency. Under the Mainland China's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

28. TRADE PAYABLES

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

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Current	104,170	157,806
31 – 60 days	41,260	39,103
61 – 90 days	21,085	7,544
Over 91 days	33,415	6,578
	199,930	211,031

29. DUE TO A RELATED PARTY

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Amount due to a company wholly owned by a director	–	148,742

The amount due was unsecured, interest-free and repayable on demand. The amount was resulted from the acquisition of minority interest in a subsidiary which had been completed during the year ended 30 June 2007.

30. LOANS FROM MINORITY SHAREHOLDERS

The loans are unsecured, interest-free and not repayable within the next twelve months from the balance sheet date.

The carrying amounts of loans from minority shareholders approximate their fair value.

31. BANK LOANS AND OVERDRAFTS, SECURED

	Group 2008	Group 2007
	HK$'000	*HK$'000*
Bank overdrafts, secured	–	113
Bank loans, secured:		
Repayable within one year	90,870	8,169
Repayable in the second year	6,343	43,169
Repayable in the third to fifth years, inclusive	18,863	9,188
Repayable beyond five years	347,203	298,140
	463,279	358,666
	463,279	358,779
Less: Current portion due within one year included under current liabilities	(90,870)	(8,282)
Non-current portion included under non-current liabilities	372,409	350,497

At 30 June 2008, 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 of the leasehold land and buildings; and

(c) corporate guarantees executed by the Company.

Details of the loans denominated in HK$ and RMB are stated below:

	Group 2008	Group 2007
	HK$'000	*HK$'000*
Loans denominated in HK$		
– Bank overdrafts	–	113
– Bank loans	445,889	352,000
Loans denominated in RMB		
– Bank loans	17,390	6,666
	463,279	358,779

The bank loans and overdrafts of the Group denominated in HK$ have floating interest rate ranging from 1.98% to 6.22% (2007: 4.48% to 5.41%) per annum. The RMB bank loans have fixed interest rate ranging from 7.34% to 8.02% (2007: 6.30% to 7.34%) per annum.

32. DEFERRED TAX

The following are major deferred tax assets and liabilities recognised in the balance sheet and the movements during the current and prior years:

Group

	Accelerated tax depreciation	Revaluation of properties	Provision for receivables	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 30 June 2006	1,927	18,482	(19,811)	598
Charge to income statement for the year	800	42,000	1,253	44,053
Balance at 30 June 2007 and 1 July 2007	2,727	60,482	(18,558)	44,651
Deferred taxation arising from decrease in tax rate (credited)/ charged to income statement	(156)	(3,456)	1,061	(2,551)
Charge to income statement for the year	724	6,651	8,607	15,982
Balance at 30 June 2008	3,295	63,677	(8,890)	58,082

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority.

The following amounts, determined after appropriate offsetting, are shown in the consolidated balance sheet:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Deferred tax liabilities	66,972	63,209
Deferred tax assets	(8,890)	(18,558)
	58,082	44,651

The Group has tax losses of approximately HK$83,291,000 (2007: HK$68,041,000) that are available for offsetting against future taxable profits of the companies which incurred the losses. Deferred tax assets have not been recognised in respect of these losses as it is not probable that future taxable profits will be available against which these unused tax losses can be utilised. Unused tax losses of HK$36,582,000 (2007: HK$26,431,000) will expire in various dates up to and including 2012. Other unused tax losses may be carried forward indefinitely.

Company

As at 30 June 2008, the Company did not have any significant unprovided deferred tax liabilities (2007: Nil).

33. SHARE CAPITAL

	2008	2007
	HK$'000	*HK$'000*
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

34. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

Other reserve represents the difference between the consideration paid for the additional interest in the subsidiaries and the minority interest's share of the assets and liabilities reflected in the consolidated balance sheet at the dates of the acquisitions of the minority interests.

Company

	Share premium account	Non-distributable reserve	Retained profits	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 1 July 2006	158,373	273,606	135,632	567,611
Net profit for the year	–	–	21,399	21,399
Interim 2007 dividend	–	–	(2,798)	(2,798)
Proposed final 2007 dividend	–	–	(5,596)	(5,596)
Balance at 30 June 2007 and 1 July 2007	158,373	273,606	148,637	580,616
Net profit for the year	–	–	19,299	19,299
Interim 2008 dividend	–	–	(2,798)	(2,798)
Proposed final 2008 dividend	–	–	(4,197)	(4,197)
Balance at 30 June 2008	158,373	273,606	160,941	592,920

The non-distributable reserve represents the premium arising on the reduction of the par value of ordinary shares of the Company from HK$2.50 to HK$0.10 per share in 1994.

35. CONTINGENT LIABILITIES

The Company has executed guarantees amounting to HK$622 million (2007: HK$621 million) with respect to bank loans to its subsidiaries. Under the guarantees, the Company would be liable to pay the banks if the banks are unable to recover the loans. At the balance sheet date, no provision for the Company's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loans would be in default.

36. CAPITAL COMMITMENTS

At 30 June 2008, the Group had outstanding capital commitments as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Contracted but not provided for:		
Construction of buildings	1,564	–
Shareholders' loan to a jointly controlled entity	–	29,200
	1,564	29,200

At 30 June 2008, the Company did not have any capital commitments (2007: Nil).

37. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases certain of its properties (note 17) under operating lease arrangements, with leases negotiated for terms ranging from two to five years. None of the leases include contingent rentals.

At 30 June 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Within one year	31,850	20,062
In the second to fifth years, inclusive	40,474	6,608
	72,324	26,670

(b) As lessee

The Group leases certain shops, office properties and staff quarters under operating lease arrangements. Leases (including contingent rental) are negotiated at fixed rate or with reference to level of business and terms ranging from one to three years.

At 30 June 2008, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Within one year	5,492	4,202
In the second to fifth years, inclusive	981	3,846
	6,473	8,048

At 30 June 2008, the Company did not have any significant operating lease arrangements (2007: Nil).

38. BUSINESS COMBINATIONS

There was no acquisition during the year ended 30 June 2008.

On 15 September 2006, the Group acquired 60% of the equity interest of Poly Jade Development Limited ("Poly Jade"). The principal activity of Poly Jade is property investment. Poly Jade contributed revenue of HK$1,965,000 and net loss of HK$23,120,000 to the Group for the period from 15 September 2006 to 30 June 2007. Poly Jade was a dormant company prior to the completion of acquisition and accordingly, if the acquisition had occurred on 1 July 2006, there is no other financial impact on the Group's revenue and profit for the year ended 30 June 2007.

Details of net identifiable assets acquired and goodwill arising on acquisition were as follows:

	HK$'000
Total purchase consideration – cash paid	7,920
Purchase of shareholder's loan	(7,920)
Fair value of net identifiable assets acquired	–
	–

The assets and liabilities arising from the acquisition are as follows:

	Fair value	**Acquiree's carrying amount**
	HK$'000	*HK$'000*
Deposit	13,200	13,200
Loan from a shareholder	(13,200)	(13,200)
Net identifiable assets acquired	–	–
Purchase consideration settled in cash		7,920
Net cash outflow arising on acquisition of Poly Jade		7,920

39. RELATED PARTY TRANSACTIONS

In addition to those related party transactions disclosed elsewhere in these financial statements, during the year, the Group had the following related party transactions.

(a) Subcontracting fees of HK$6,521,000 (2007: HK$8,257,000) paid to certain associates. The subcontracting fees are mutually negotiated between the Group and the associates.

(b) Sales of goods to associates of HK$409,000 (2007: HK$1,337,000) were made during the year. The terms are mutually negotiated between the Group and the associates.

(c) No subcontracting income (2007: HK$20,000) and no income for administrative services (2007: HK$204,000) were received from a jointly controlled entity during the year ended 30 June 2008. The subcontracting income and income for administrative services provided for the year ended 30 June 2007 were mutually negotiated between the Group and the jointly-controlled entity.

(d) Management fee income of HK$120,000 (2007: HK$240,000) were received from an associate. The management fee income is mutually negotiated between the Group and the associate.

(e) On 11 May 2007, Invest Companion Limited, a wholly-owned subsidiary, entered into a sales and purchase agreement with Brilliant Top Properties Limited, a company incorporated in the British Virgin Islands with limited liability and wholly-owned by Mr. Chan Sing Chuk, Charles ("Mr. Chan") to acquire 45 shares of US$1.00 each in Crystal Gain Developments Limited ("Crystal Gain"), representing 45% of issued share capital of Crystal Gain at the total consideration of approximately HK$5,400,000.

(f) During the year ended 30 June 2007, Mr. Chan provided a personal guarantee to the banker of Crystal Gain up to the total amount of HK$120,544,000 being 45% of a bank loan of HK$267,875,000 drawn by Crystal Gain. 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:

	2008	**2007**
	HK$'000	*HK$'000*
Short term employee benefits	10,029	9,007
Post-employment benefits	306	249
	10,335	9,256

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's major financial instruments include equity investments, long term receivables, loan to jointly controlled entities, trade receivables, trade payables, bank loans and overdrafts. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

(i) Foreign currency risk

Group

The Group mainly operates in Hong Kong, the United Kingdom and the Mainland China. The functional currencies of the Company and its subsidiaries are mainly HK dollars, British Pounds and RMB. The Group is thus exposed to currency risk arising from fluctuations on foreign currencies, primarily US dollars, British Pounds and RMB, against the functional currency of the relevant Group entities. Currently, the Group does not have foreign currency hedging policy but the management continuously monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The following table summarises the Group's major financial assets and liabilities denominated in currencies other than the functional currency of the respective group companies as at 30 June 2008 and 2007.

	Expressed in HK$'000				
	United States dollars	**Euro**	**British pounds**	**Canadian dollars**	**Philippines Pesos**
At 30 June 2008					
Available-for-sale financial assets	4,231	–	–	–	830
Long-term receivables	3,621	–	–	7,440	–
Trade receivables	152,319	1,214	2,309	–	–
Cash and bank balances	88,938	1,290	7,078	123	–
Trade payable	(198,070)	–	(1,384)	–	–
Overall net exposure	51,039	2,504	8,003	7,563	830

	Expressed in HK$'000				
	United States dollars	**Euro**	**British pounds**	**Canadian dollars**	**Philippines Pesos**
At 30 June 2007					
Available-for-sale financial assets	8,096	–	–	–	2,334
Long-term receivables	3,621	–	–	8,745	–
Trade receivables	167,721	–	6,198	–	–
Financial assets at fair value through profit or loss	6,555	–	–	–	–
Cash and bank balances	80,134	76	8,106	20	–
Trade payable	(206,069)	–	(2,050)	–	–
Overall net exposure	60,058	76	12,254	8,765	2,334

As United Stated Dollars (US$) is pegged to HK$, the Group does not expect any significant movements in the US$/HK$ exchange rates. No sensitivity analysis in respect of the Group's financial assets and liabilities denominated in US$ is disclosed as in the opinion of directors, such sensitivity analysis does not give additional value in view of insignificant movement in the US$/HK$ exchange rates as at balance sheet date. The following table indicates the approximate change in the Group's profit for the year and equity in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	2008			2007		
	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year *HK$'000*	Equity *HK$'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year *HK$'000*	Equity *HK$'000*
Euro	+5%	125	125	+5%	3	3
	-5%	(125)	(125)	-5%	(3)	(3)
British pounds	+5%	400	400	+5%	612	612
	-5%	(400)	(400)	-5%	(612)	(612)
Canadian dollars	+5%	378	378	+5%	438	438
	-5%	(378)	(378)	-5%	(438)	(438)
Philippines Pesos	+5%	42	42	+5%	117	117
	-5%	(42)	(42)	-5%	(117)	(117)

Company

The Company is exposed to foreign currency risk primarily through its long term receivables which are denominated in Canadian dollars. The following table indicates the approximate change in the Company's profit for the year and equity in response to reasonably possible changes in the foreign exchange rates to which the Company has significant exposure at the balance sheet date.

	2008			2007		
	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year *HK$'000*	Equity *HK$'000*	Increase/ (decrease) in foreign exchange rates	Effect on profit for the year *HK$'000*	Equity *HK$'000*
Canadian dollars	+5%	333	333	+5%	381	381
	-5%	(333)	(333)	-5%	(381)	(381)

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and that all other variables remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date.

(ii) Price risk

The Group are exposed to equity price risk through its investments in listed equity securities which are classified as at fair value through profit or loss, or available-for-sale. The board of directors manages this exposure by maintaining a portfolio of investments with different risk and return profiles and will consider hedging the risk exposure should the need arise. The Group are not exposed to commodity price risk.

At 30 June 2008, if equity prices had increased/(decreased) by 10% and all other variables were held constant:

– the Group's profit for the year would increase/(decrease) by approximately HK$1,276,000 (2007: increase/(decrease) by approximately HK$2,271,000). This is mainly due to the changes in financial assets at fair value through profit or loss; and

– the Group's equity other than retained profits would increase/(decrease) by approximately HK$995,000 (2007: HK$1,041,000) as a result of the changes in fair value of listed equity investments included in the Group's available-for-sale financial assets.

This sensitivity analysis has been determined assuming that the price change had occurred at the balance sheet date and has been applied to the Group's investment on that date.

(iii) Interest rate risk

The Group is exposed to interest rate risk primarily through the impact of interest rate changes on bank balances and interest bearing bank borrowings carrying interests at variable rates.

The following table illustrates the sensitivity of the profit after tax for the year and retained earnings to a change in interest rates of +100 basis point and -100 basis point (2007: +100 basis point and -100 basis point) with effect from the beginning of the year. The calculations are based on the Group's bank balances, interest bearing bank borrowings held at each balance sheet date. All other variables are held constant.

	2008	**2007**
	HK$'000	*HK$'000*
If interest rates were 100 basis point (2007: 100 basis point) higher		
Net loss for the year	(3,368)	(2,565)
If interest rates were 100 basis point (2007: 100 basis point) lower		
Net profit for the year	3,368	2,565

Credit risk

The Group's and the Company's maximum exposure to credit risk in the event of the counterparties failure to perform their obligations in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated and the Company's balance sheets. In order to minimise the credit risk, the senior management compiles the credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount for each individual account receivables at each balance sheet date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the board of directors considers that the Group's credit risk is effectively controlled and significantly reduced.

The Company's maximum exposure to credit risk is primarily attributable to amounts due from subsidiaries, other receivables and contingent liabilities in relation to the financial guarantee contracts as detailed in note 35 to the financial statements.

The Group's credit risk exposure is spread over a number of counterparties and customers. Hence, it has no significant concentration of credit risk by a single debtor.

Credit risk on cash and bank balances is mitigated as cash is deposited in banks of high credit rating.

Further quantitative data in respect of the Group's exposure to credit risk arising from long term and trade receivables are disclosed in notes 22 and 24 to the financial statements respectively.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The maturity profile of the Group's financial liabilities as at the balance sheet date, based on the contracted undiscounted payments, was as follows:

Group

	Carrying amount	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 30 June 2008						
Trade payables	199,930	199,930	199,930	–	–	–
Other payables and accruals	46,170	46,170	46,170	–	–	–
Due to associates	538	538	538	–	–	–
Due to jointly controlled entities	3	3	3	–	–	–
Bank loans, secured	463,279	674,461	100,137	15,464	45,317	513,543
Loans from minority shareholders	1,125	1,125	–	1,125	–	–
	711,045	922,227	346,778	16,589	45,317	513,543
As at 30 June 2007						
Trade payables	211,031	211,031	211,031	–	–	–
Other payables and accruals	43,167	43,167	43,167	–	–	–
Due to associates	607	607	607	–	–	–
Due to a related party	148,742	148,742	148,742	–	–	–
Due to jointly controlled entities	39	39	39	–	–	–
Bank loans and overdrafts, secured	358,779	771,087	23,921	58,679	54,877	633,610
Loans from minority shareholders	21,505	21,505	–	21,505	–	–
	783,870	1,196,178	427,507	80,184	54,877	633,610
Company						
As at 30 June 2008						
Other payables and accruals	300	300	300	–	–	–
As at 30 June 2007						
Other payables and accruals	491	491	491	–	–	–

Fair values

All financial instruments are carried at amount not materially different from their fair values as at 30 June 2008 and 2007.

41. SUMMARY OF FINANCIAL ASSETS AND LIABITILIES BY CATEGORY

The carrying amounts of the Group's and the Company's financial assets and liabilities as recognised at balance sheet dates may be categorised as follows. See notes 3.14 and 3.20 for explanations about how the category of financial instruments affects their subsequent measurement.

	Group		Company	
	2008	**2007**	**2008**	**2007**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Financial assets				
Non-current assets				
Available-for-sale financial assets	14,177	18,507	–	–
Loan and receivables				
– Long term receivables	6,135	8,724	5,703	6,661
– Loans to jointly controlled entities	130,300	93,300	–	–
– Amount due from subsidiaries	–	–	328,372	313,095
	150,612	120,531	334,075	319,756
Current assets				
Financial assets at fair value through profit or loss	12,763	22,513	–	–
Derivative financial instruments	–	39	–	–
Loan and receivables				
– Trade receivables	168,745	193,260	–	–
– Other receivables	12,637	7,367	12	–
– Current portion of long term receivables	4,926	3,643	958	958
– Due from subsidiaries	–	–	47,986	52,300
– Due from associates	493	516	8	8
– Due from a jointly controlled entity	120	2,110	–	–
– Cash and bank balances	128,868	102,281	82	85
	328,552	331,729	49,046	53,351
	479,164	452,260	383,121	373,107

	Group 2008 HK$'000	Group 2007 HK$'000	Company 2008 HK$'000	Company 2007 HK$'000
Financial liabilities				
Current liabilities				
Financial liabilities measured at amortised cost:				
– Trade payables	(199,930)	(211,031)	–	–
– Other payables and accruals	(46,170)	(43,167)	(300)	(491)
– Due to associates	(538)	(607)	–	–
– Due to a related party	–	(148,742)	–	–
– Due to jointly controlled entities	(3)	(39)	–	–
– Bank loans and overdrafts, secured	(90,870)	(8,282)	–	–
	(337,511)	(411,868)	(300)	(491)
Non-current liabilities				
Financial liabilities measured at amortised cost:				
– Loans from minority shareholders	(1,125)	(21,505)	–	–
– Bank loans, secured	(372,409)	(350,497)	–	–
	(373,534)	(372,002)	–	–
	(711,045)	(783,870)	(300)	(491)

42. CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy ratios in order to support its business and maximise shareholders value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the current and previous years.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank and other borrowings less the sum of time deposits and cash and bank balances as shown in the consolidated balance sheet. The Group aims to maintain the gearing ratio at a reasonable level and the directors are of the opinion that the Group's gearing ratio was maintained at reasonable level at the balance sheet dates. The gearing ratios as at the balance sheet date were as follows:

	Group	
	2008	**2007**
	HK$'000	*HK$'000*
Current liabilities		
Bank loans and overdrafts, secured	90,870	8,282
Non-current liabilities		
Loan from minority shareholders	1,125	21,505
Bank loans, secured	372,409	350,497
Total debt	464,404	380,284
Less: Cash and bank balances	(128,868)	(102,281)
Net debt	335,536	278,003
Capital	878,573	800,190
Capital and net debt	1,214,109	1,078,193
Gearing ratio	27.6%	25.8%

43. POST BALANCE SHEET EVENT

(a) Subsequent to the balance sheet date, on 4 July 2008, the Group entered into an acquisition agreement with Brilliant Top Properties Limited (the "Vendor"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Chan in relation to the acquisition of the entire equity interest in Precious Palace International Limited and its subsidiary (the "Target Group") and an interest-free shareholder's loan owing to the Vendor by the Target Group on 25 August 2008 in the sum of approximately HK$180.3 million at a total consideration of HK$389.5 million. The consideration, less the outstanding amount of a mortgage loan obtained by the Target Group, was to be satisfied by the Group to the Vendor by:

i. a cash deposit of HK$117.5 million;

ii. allotment and issue of 33,030,303 consideration shares to the Vendor or its nominee at HK$1.65 per share, totalling HK$54.5 million; and

iii. the balance shall be satisfied by the issue of a promissory note to the Vendor or it nominees.

The above transaction constituted a very substantial acquisition and connected transaction under the Listing Rules. More details were disclosed in the Company's circular dated 27 August 2008. The abovementioned acquisition was approved by the independent shareholders of the Company in the extraordinary general meeting held on 16 September 2008. The result of the extraordinary general meeting was disclosed in the Company's announcement dated 16 September 2008.

(b) Subsequent to the balance sheet date, on 25 September 2008, the Group entered into an agreement for sale and purchase with an independent third party in relation to a disposal of an investment property located at Unit A, 12 Floor, Kaiser Estate Phase 1, No.37-45 Man Yue Street, Hung Hom, Kowloon at a consideration of HK$15.48 million. It is expected that the disposal of the aforesaid investment property would be completed on 27 October 2008.

3. UNAUDITED FINANCIAL STATEMENTS OF THE GROUP FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

The following are the unaudited financial statements of the Group for the six months ended 31 December 2008 as extracted from the interim report of the Company for the six months ended 31 December 2008.

CONDENSED CONSOLIDATED INCOME STATEMENT

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

CONDENSED CONSOLIDATED BALANCE SHEET

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

	Notes	Unaudited At 31 December 2008 HK$'000	Audited At 30 June 2008 HK$'000
Non-current liabilities			
Loan from minority shareholder		(1,125)	(1,125)
Deferred tax liabilities		(56,642)	(66,972)
Note payable – promissory note		(50,000)	–
Bank loans, secured	12	(534,625)	(372,409)
		(642,392)	(440,506)
Net assets		879,408	878,573
EQUITY			
Equity attributable to the Company's equity holders			
Issued capital	13	31,283	27,980
Reserves		843,132	844,531
Proposed interim/final dividend		3,128	4,197
		877,543	876,708
Minority interests		1,865	1,865
Total equity		879,408	878,573

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 31 December	
	2008	**2007**
	HK$'000	*HK$'000*
Net cash generated from/(used in) operating activities	17,218	(5,155)
Net cash used in investing activities	(448,011)	(180,582)
Net cash generated from financing activities	359,406	199,675
(Decrease)/Increase in cash and cash equivalents	(71,387)	13,938
Cash and cash equivalents at 1 July	128,868	102,281
Effect of foreign exchange rate changes, net	7,877	(5,046)
Cash and cash equivalents at 31 December	65,358	111,173
Analysis of balances of cash and cash equivalents:		
Cash and bank balances	73,416	80,053
Short term time deposits	–	31,120
Bank overdrafts, secured	(8,058)	–
	65,358	111,173

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Unaudited
Six months ended 31 December

	Equity attributable to equity holders of the Company									Minority interests	Total equity
	Issued capital	Share premium account	Non-distributable reserve	Other reserve	Exchange fluctuation reserve	Investment revaluation reserve	Retained profits	Proposed dividends	Total		
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Balance at 30 June 2008 and 1 July 2008:	27,980	158,373	273,606	(8,779)	5,046	1,824	414,461	4,197	876,708	1,865	878,573
Exchange differences on translation of the financial statements of foreign subsidiaries, associates and jointly controlled entities	–	–	–	–	14,178	–	–	–	14,178	–	14,178
Change in fair value of available-for-sale financial assets	–	–	–	–	–	(4,028)	–	–	(4,028)	–	(4,028)
Net income recognised directly in equity	–	–	–	–	14,178	(4,028)	–	–	10,150	–	10,150
Loss for the period	–	–	–	–	–	–	(40,295)	–	(40,295)	–	(40,295)
Total recognised income and expenses for the period	–	–	–	–	14,178	(4,028)	(40,295)	–	(30,145)	–	(30,145)
Issue of new shares	3,303	32,369	–	–	–	–	–	–	35,672	–	35,672
Additional final dividend 2008	–	–	–	–	–	–	(495)	495	–	–	–
Payment of final 2008 dividend	–	–	–	–	–	–	–	(4,692)	(4,692)	–	(4,692)
Interim dividend, proposed	–	–	–	–	–	–	(3,128)	3,128	–	–	–
Balance at 31 December 2008	31,283	190,742	273,606	(8,779)	19,224	(2,204)	370,543	3,128	877,543	1,865	879,408
Balance at 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, associates and jointly controlled entities	–	–	–	–	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	27,980	158,373	273,606	(8,779)	6,595	4,855	355,613	2,798	821,041	1,078	822,119

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation

The unaudited condensed consolidated interim financial statements ("interim financial statements") have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules ("Listing 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 investment properties and certain financial assets, which are measured at fair value, as appropriate.

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

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

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

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

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

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

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

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

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

3. Segment information

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

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

(a) design, manufacturing, marketing and trading of fine jewellery and diamonds;

(b) property investment; and

(c) investment.

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

(a) Business segment

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

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

(b) Geographical segment

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

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

4. Revenue

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

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

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

5. Finance costs

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

6. (Loss)/Profit before income tax

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

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

7. Income tax (credit)/expense

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

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

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

8. Dividends

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

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

9. (Loss)/Earnings per share

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

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

10. Trade receivables

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

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

	Current	31-60 days	61-90 days	Over 90 days	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unaudited balance at 31 December 2008	55,763	49,956	33,326	37,179	176,224
Audited balance at 30 June 2008	82,269	36,343	17,430	32,703	168,745

11. Trade payables

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

	Current	31-60 days	61-90 days	Over 90 days	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Unaudited balance at 31 December 2008	56,935	16,599	18,823	50,604	142,961
Audited balance at 30 June 2008	104,170	41,260	21,085	33,415	199,930

12. Bank loans and overdrafts, secured

At 31 December 2008, the Group's bank loans and overdrafts are as follows:

	Unaudited 31 December 2008	Audited 30 June 2008
	HK$'000	*HK$'000*
Bank overdrafts, secured	8,058	–
Secured bank loans:		
Repayable within one year	202,387	90,870
Repayable in the second year	8,102	6,343
Repayable in the third to fifth years, inclusive	192,046	18,863
Repayable beyond five years	334,477	347,203
	737,012	463,279
	745,070	463,279
Less: Current portion due within one year Included under current liabilities	(210,445)	(90,870)
Non-current portion included under non-current liabilities	534,625	372,409

At 31 December 2008, 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 leasehold land and buildings; and

(c) corporate guarantees executed by the Company.

13. Issued capital

	Unaudited 31 December 2008		Audited 30 June 2008	
	Number of shares	**Nominal value** *HK$'000*	**Number of shares**	**Nominal value** *HK$'000*
Authorised:				
Ordinary shares of HK$0.10 each	3,500,000,000	350,000	3,500,000,000	350,000
Issued and fully paid:				
Ordinary shares of HK$0.10 each				
At beginning of the period/year	279,800,031	27,980	279,800,031	27,980
Issue of new shares	33,030,303	3,303	–	–
At end of the period/year	312,830,334	31,283	279,800,031	27,980

During the period, 33,030,303 new shares were issued and allotted by the Company at HK$1.65 per share to purchase of a property through the acquisition of the entire equity interest in Precious Palace International Limited and its subsidiary. Details of the transaction are disclosed in Note 16(c) to the condensed interim financial statements.

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. None of the leases include contingent rentals.

At 31 December 2008, the Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	Unaudited 31 December 2008 *HK$'000*	**Audited 30 June 2008** *HK$'000*
Within one year	33,354	31,850
In the second to fifth years, inclusive	33,383	40,474
	66,737	72,324

(b) As lessee

At 31 December 2008, the Group leases certain of its office properties and staff quarter under operating lease arrangement. Leases for properties (including contingent rental) are negotiated at fixed rate or with reference to level of business and 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 2008 *HK$'000*	Audited 30 June 2008 *HK$'000*
Within one year	2,627	5,492
In the second to fifth years, inclusive	115	981
	2,742	6,473

15. Capital commitments

	Unaudited 31 December 2008 *HK$'000*	Audited 30 June 2008 *HK$'000*
Contracted but not provided for Property, plant and equipment	4,243	–

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$2,783,000 (2007: HK$3,806,000) 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$51,000 (2007:HK$303,000) were made during the period. The terms are mutually negotiated between the Group and the associate.

(c) On 4 July 2008, the Group entered into an acquisition agreement with Brilliant Top Properties Limited (the "Vendor"), a company incorporated in the British Virgin Islands and wholly owned by Mr. Chan Sing Chuk, Charles in relation to the acquisition of the entire equity interest in Precious Palace International Limited and its subsidiary (the "Target Group'') and an interest-free shareholder's loan owing to the Vendor by the Target Group on 25 August 2008 in the sum of approximately HK$180.3 million at a total consideration of HK$389.5 million. The consideration, less the outstanding amount of a mortgage loan obtained by the Target Group, was to be satisfied by the Group to the Vendor by:

i. a cash deposit of HK$117.5 million;

ii. allotment and issue of 33,030,303 consideration share to the Vendor or its nominee at HK$1.65 per share, totalling HK$54.5 million; and

iii. the balance shall be satisfied by the issue of a promissory note to the Vendor or it nominees.

The above transaction constituted a very substantial acquisition and connected transaction under the Listing Rules. More details were disclosed in the Company's circular dated 27 August 2008. The abovementioned acquisition was approved by the independent shareholders of the

Company in the extraordinary general meeting held on 16 September 2008. The result of the extraordinary general meeting was disclosed in the Company's announcement dated 16 September 2008.

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	
	2008	**2007**
	HK$'000	*HK$'000*
Short term employee benefits	3,542	3,162
Post-employment benefits	153	125
	3,695	3,287

4. MANAGEMENT DISCUSSION AND ANALYSIS

Management discussion and analysis of the Group

FOR THE YEAR ENDED 30 JUNE 2006

Business review

Continental's financial year ended on 30 June 2006, was a year of continuity and progress for the Company. During the year, the Group has achieved a turnover of HK$1.712 billion (2005: HK$1.243 billion). Profit attributable to equity holders of the Company was HK$50.5 million (2005: HK$50.1 million (restated)) and earnings per share was HK18.1 cents (2005: HK17.9 cents (restated)).

Our results in 2006 were achieved through the marketplace performance of our jewellery manufacturing and trading, export marketing, diamond cutting and polishing, diamond trading, jewellery retailing, properties and other investments. We are focused on the higher value-added segment of our business to seek for a more consistent and profitable income source. We strive to aggregate our business in the core business and investments for diversification. Our Group will constantly finetune our operations in order to capture the most attractive growth, efficiency and profit opportunities in the years ahead.

Against the backdrop of a tempering market, and raising interest rates, the luxury jewellery market has improved towards the later part of the fiscal year internationally. Though 2006 is a very competitive market with huge volatility in the gold prices, Continental is able to expand its international presence as we continue our efforts on innovation, creativity and quality.

Continental remains one of the strong leaders in diamond and jewellery manufacturing. In the years to come we will further strengthen our competitive advantages in market positioning and management through higher efficiency and maximization of resources.

Liquidity, Financial resources and gearing

As of 30 June 2006, the Group had a moderate gearing ratio of 0.39 (2005: 0.47 (restated)), calculated on the basis of the Group's bank borrowings over shareholders' funds. Total cash and bank balances was HK$116,408,000 (2005: HK$32,339,000) while bank loans and overdrafts was HK$272,683,000 (2005: HK$305,919,000). The movement represents the disposal of an investment property through the sale of the entire issued share capital of a wholly-owned subsidiary of the Company. These bank loans and overdrafts are secured by first legal charges over the Group's investment properties, certain leasehold land and buildings, assignment of rental income of an investment property and corporate guarantees executed by the Company together with a personal guarantee executed by a director.

The abovementioned bank loans and overdraft included HK$268 million for the Property and term loan of HK$5 million for the Remaining Group which was repayable within one year.

The significant investments of the Remaining Group included property investment, listed and unlisted securities.

On 5 November 2005, City Treasure Limited, a wholly-owned subsidiary of the Company, as vendor, and GC Acquisitions Limited as purchaser, entered into a provisional sale and purchase agreement in relation to the disposal of nos. 611, 613, 615 and 617 Shanghai Street, Kowloon, Hong Kong and the entire 22-storey commercial building erected thereon at a consideration of HK$158 million. Such transaction is classified as a major transaction under the Listing Rules and more details were included in the Company's announcement dated 7 November 2005 and the Company's circular dated 29 November 2005.

The business segments of the Remaining Group included property investment and development, design, manufacturing, marketing and trading of fine jewellery and diamonds, investment and others. During the year ended 30 June 2006, the turnover of each business segment of the Remaining Group was HK$4.8 million, HK$1,675 million and HK$1.3 million respectively, and the results was HK$6.4 million, HK$46.7 million and HK$6.4 million respectively.

The Group strives to aggregate the business in the core business & investments for diversification and further down the line to diversify the Group's portfolio in jewellery and other investments to create a stronger organization for the shareholders and the community.

Subsequent to the balance sheet dated 30 June 2006, on 8 September the Group entered into an agreement in relation to the acquisition by the Group of 60 shares representing 60 % of the entire issued share capital of Poly Jade Development Limited. Such transaction was classified as a discloseable transaction under Listing Rules and more details were included in the Group's circular dated 27 September 2006.

Pledge of assets

As of 30 June 2006, the Group's investment properties, certain leasehold land and buildings were pledged to bank to secure the general banking facilities.

Capital structure

All the Group's borrowings are denominated in local Hong Kong dollars and PRC Renminbi. Interest is determined on the basis of Hong Kong inter-bank offering rates or Prime Rate and PRC Renminbi fixed rate.

There was no change to the Group's capital structure during the year ended 30 June 2006. In the light of the current financial position of the Company and provided there is no unforeseeable circumstance, the management does not anticipate the need to change the capital structure.

Number of employees, remuneration, policies and share option schemes

The Group employs a total of approximately 2,400 employees with the majority in the PRC. The Group remunerates its employees largely based on the industrial practice. There is no share option scheme being adopted by the Company.

Exposure to financial risk and related hedges

The Group utilises conservative strategies on its risk management and the market risk is kept to minimum. With the exception of the UK subsidiary, all transactions and the borrowings of the Group are primarily denominated in US Dollars and/or Hong Kong Dollars. The risk of foreign exchange fluctuations is minimal under the peg. During the year, the Group entered into foreign exchange forward rate agreements in order to secure its exposure to fluctuations in foreign currency exchange rates and to neutralise the impact of foreign currency risk on the Group's operating result. 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 year, the Group did not use any other financial instrument for hedging purposes. As of 30 June 2006, there was no hedging instrument outstanding.

Contingent liabilities

At the balance sheet date, contingent liabilities not provided for in the financial statements were as follows:

	Company	
	2006	**2005**
	HK$'000	*HK$'000*
Guarantees for banking facilities granted to subsidiaries	347,825	431,825

At 30 June 2006, the banking facilities granted to the subsidiaries subject to guarantees given to the banks by the Company were utilised to the extent of approximately HK$147,331,000 (2005: HK$196,777,000).

FOR THE YEAR ENDED 30 JUNE 2007

Business review

During the fiscal year of 2007, the Group has achieved a turnover of HK$1.632 billion (2006: HK$1.712 billion). Profit attributable to equity holders of the Company was HK$114.0 million (2006: HK$50.5 million) and earnings per share was HK41.0 cents (2006: HK18.1 cents).

In 2007, the overall market sentiment is quite mixed across regions. In jewellery manufacturing, the year has been challenging with an uncertain U.S. economy and weakening of the Dollar has led to softer consumer spending in the luxury sector. Overall, our jewellery and diamond trading business remain highly competitive as a result of higher gold prices, increasing production costs and the appreciation of Renminbi. However, our non-US business remains quite steady and slightly benefiting from the strong currencies. Withstanding all challenges, we strive at further extending our network of sourcing and distribution.

Over in properties, rental income continues to provide a steady income stream to the Group. On going, Continental aims to identify potential investment opportunities both in Hong Kong and other countries.

Liquidity, Financial resources and gearing

As of 30 June 2007, the Group had a moderate gearing ratio of 0.45 (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$102,281,000 (2006: HK$116,408,000) which were mainly denominated in Hong Kong Dollars, US Dollars and British Pounds, while bank loans and overdrafts were HK$358,779,000 (2006: HK$272,683,000) which were mainly denominated in Hong Kong Dollars. The movement represents the purchase of investment properties. These bank loans and overdrafts are secured by first legal charges over the Group's investment properties, certain leasehold land and buildings, assignment of rental income of investment properties and corporate guarantees executed by the Company as at 30 June 2007.

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

The abovementioned bank loans and overdrafts included HK$312 million for the Property and term loans and overdrafts of HK$47 million for the Remaining Group which are repayable within one to two year(s).

The significant investments of the Remaining Group included property investment, listed and unlisted securities.

On 8 September 2006, Honest Joy Limited, an indirect wholly-owned subsidiary of the Company, as purchaser, and Gay Hussar Company Limited as vendor, entered into a sale and purchase agreement in relation to the acquisition of the 60 shares of

Poly Jade Development Limited, representing 60% its entire issued share capital, at a consideration of HK$7.92 million. Such transaction is classified as a discloseable transaction under the Listing Rules and more details were included in the Company's announcement dated 11 September 2006 and the Company's circular dated 27 September 2006.

On 11 May 2007, Invest Companion Limited, a wholly-owned subsidiary of the Company, as purchaser, Brilliant Top Properties Limited, a company wholly-owned by Mr. Chan Sing Chuk, Charles ("**Mr. Chan**"), an executive Director, as vendor and Mr. Chan as guarantor, entered into a sale and purchase agreement in relation to the acquisition of the 45 shares of Crystal Gain Developments Limited ("**Crystal Gain**"), representing 45% of its issued share capital and the shareholders' loan of Crystal Gain at a consideration of approximately HK$5,400,000 ("**Invest Companion Transaction**"). Such transaction is classified as a major and connected transaction under the Listing Rules and more details were included in the Company's announcement dated 11 May 2007 and the Company's circular dated 4 June 2007.

The business segments of the Remaining Group included property investment, design, manufacturing, marketing and trading of fine jewellery and diamonds and investment. During the year ended 30 June 2007, the turnover of each business segment was HK$2.8 million, HK$1,595 million and HK$5.5 million respectively, and the results was loss of HK$21.6 million, and profit of HK$34.6 million and HK$2.1 million respectively.

The Group aims to identify potential investment opportunities both in Hong Kong and other countries and at the same time focus on identifying profitable and better return business opportunities in creating long-term and sustainable value to the shareholders.

There was no material future investment planning as at the balance sheet dated 30 June 2007.

Pledge of assets

As of 30 June 2007, the Group's investment properties, certain leasehold land and buildings with an aggregate net book/carrying value of HK$785,086,000 (2006: HK$473,943,000) were pledged to a bank to secure general banking facilities granted to the Group.

Capital structure

All the Group's borrowings are denominated in local Hong Kong Dollars and PRC Renminbi. Interest is determined on the basis of Hong Kong inter-bank offering rates or Prime Rate and PRC Renminbi fixed rate. There was no change to the Group's capital structure during the year ended 30 June 2007. In the light of the current financial position of the Company and provided there is no unforeseeable circumstance, the management does not anticipate the need to change the capital structure.

Number of employees, remuneration, policies and share option schemes

The Group employs a total of approximately 2,400 employees with the majority in the PRC. The Group remunerates its employees largely based on the industrial practice. There is no share option scheme being adopted by the Company.

Exposure to financial risk and related hedges

The Group utilises 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 mainly in US Dollars and Hong Kong Dollars respectively. 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 year, the Group did not use any other financial instrument for hedging purposes. As of 30 June 2007, there was no hedging instrument outstanding.

Contingent liabilities

The Company has executed guarantees amounting to HK$621 million (2006: HK$348 million) with respect to bank loans to its subsidiaries. Under the guarantees, the Company would be liable to pay the banks if the banks are unable to recover the loans. At the balance sheet date, no provision for the Company's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loans would be in default.

FOR THE YEAR ENDED 30 JUNE 2008

Business review

During the fiscal year 2008, the Group has achieved a turnover of HK$1.498 billion (2007: HK$1.632 billion). Profit attributable to equity holders of the Company was HK$83 million (2007: HK$114 million) and earnings per share was HK29.8 cents (2007: HK41.0 cents).

It was a challenging year for the Group in 2008. The results of jewellery and diamond trading were affected by the sub-prime mortgage crisis as well as the downturn of U.S. economy. The high volatility of the gold price, appreciation of Renminbi, global inflation and high production costs in China added pressure to our overall performance. However, with our solid foundation and extensive distribution network, we continue to focus our resources in developing new markets and will remain vigilant about maximizing our operational efficiency and controlling our production costs.

Rental income from properties, with a close to full occupancy, provides a steady income stream to the Group. In the future, the Group will continue to identify potential opportunities both locally and overseas.

Liquidity, Financial resources and gearing

As of 30 June 2008, the Group had a moderate gearing ratio of 0.28 (2007: 0.26), which is net debt divided by total equity plus net debt. Net debt is calculated as the sum of bank and other borrowings less the sum of time deposits and cash and bank balances. Total cash and bank balances were HK$128,868,000 (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$463,279,000 (2007: HK$358,779,000) which were mainly denominated in Hong Kong Dollars. The movement represents new bank loans borrowed by the Group to repay amount due to a related party. These bank loans and overdrafts are secured by first legal charges over the Group's investment properties, certain leasehold land and buildings, assignment of rental income of certain investment properties 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.

The abovementioned bank loans and overdrafts included HK$446 million for the Property and term loans of HK$17 million for the Remaining Group which are repayable within one year.

The significant investments of the Remaining Group included property investment, listed and unlisted securities.

The Invest Companion Transaction was completed in September 2007.

On 12 December 2007, Poly Jade Development Limited, a non wholly-owned subsidiary of the Company, as vendor, and a company incorporated in Hong Kong as purchaser, entered into a provisional sale and purchase agreement in relation to the disposal of Nos. 2-6 Bowring Street, Kowloon, Hong Kong at a consideration of HK$105,000,000. Such transaction constituted a discloseable transaction under the Listing Rules. More details were disclosed in the Company's announcement dated 13 December 2007 and the Company's circular dated 2 January 2008.

The business segments of the Remaining Group included property investment, design, manufacturing, marketing and trading of fine jewellery and diamonds and investment. During the year ended 30 June 2008, the turnover of each business segment was HK$0.7 million, HK$1,463 million and HK$3.5 million respectively, and the results was profit of HK$43.4 million, HK$24.2 million and a loss of HK$2.5 million respectively.

The Group would utilize its core competencies in jewellery and diamonds segments, keep an outlook for future investment opportunities and hold a cautious yet optimistic view towards its future business development.

Subsequent to the balance sheet date, on 4 July 2008, the Group entered into an acquisition agreement with Brilliant Top Properties Limited, a company incorporated in the British Virgin Islands and wholly owned by Mr. Chan Sing Chuk, Charles in relation to the acquisition of the entire equity interest in Precious Palace International Limited and its subsidiary and an interest-free shareholder's loan owing to Brilliant Top Properties Limited. More details were disclosed in the Group's circular dated 27 August 2008.

Pledge of assets

As of 30 June 2008, the Group's investment properties, certain leasehold land and buildings with an aggregate net book/carrying value of HK$776,972,000 (2007: HK$785,086,000) were pledged to certain banks to secure general banking facilities granted to the Group.

Capital structure

All the Group's borrowings are denominated in local Hong Kong Dollars and PRC Renminbi. Interest is determined on the basis of Hong Kong inter-bank offering rates or Prime Rate and PRC Renminbi fixed rate. There was no change to the Group's capital structure during the year ended 30 June 2008. In the light of the current financial position of the Company and provided there is no unforeseeable circumstance, the management does not anticipate the need to change the capital structure.

Number of employees, remuneration, policies and share option schemes

The Group employs a total of approximately 2,100 employees with the majority in the PRC. The Group remunerates its employees largely based on the industrial practice. There is no share option scheme being adopted by the Company.

Exposure to financial risk and related hedges

The Group utilises conservative strategies on its risk management and the market risk is kept to minimum. With the exception of the UK subsidiaries, all transactions and the borrowings of the Group are primarily denominated mainly in US Dollars and Hong Kong Dollars respectively. 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 year, the interest rate swap contracts entered by the Group matured and thereafter, the Group did not use any other derivative financial instrument for hedging purposes. As of 30 June 2008, there was no hedging instrument outstanding.

Contingent liabilities

The Company has executed guarantees amounting to HK$622 million (2007: HK$621 million) with respect to bank loans to its subsidiaries. Under the guarantees, the Company would be liable to pay the banks if the banks are unable to recover the loans. At the balance sheet date, no provision for the Company's obligation under the guarantee contract has been made as the directors considered that it was not probable that the repayment of the loans would be in default.

FOR THE SIX MONTHS ENDED 31 DECEMBER 2008

Business review

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

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

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

Liquidity, Financial resources and gearing

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

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

The abovementioned bank loans and overdrafts included HK$443 million for the Property and term loans and overdrafts of HK$302 million for the Remaining Group which were repayable within five years.

The significant investments of the Remaining Group included property investment, listed and unlisted securities.

On 4 July 2008, Brilliant Top Properties Limited, a company wholly-owned by Mr. Chan Sing Chuk ("**Mr. Chan**"), as vendor, Invest Companion Limited as purchaser and Mr. Chan as guarantor, entered into a sale and purchase agreement in relation to the acquisition of the one share of Precious Palace International Limited, representing its entire issued share capital and a shareholder's loan at a consideration of HK$389.5 million less the amount of the mortgage loan owed by Well Friendship Investment Limited ("**Well Friendship**") under the mortgage agreement dated 31 July 2008 entered into between Well Friendship as mortgagor and the Hongkong and Shanghai Banking Corporation Limited as mortgagee. Such transaction constituted a very substantial acquisition and connected transaction under the Listing Rules. More details were disclosed in the Company's announcement dated 9 July 2008 and the Company's circular dated 27 August 2008. The aforesaid acquisition was approved by the then independent shareholders of the Company in the extraordinary general meeting held on 16 September 2008.

The business segments of the Remaining Group included property investment, design, manufacturing, marketing and trading of fine jewellery and diamonds and investment. During the six months ended 31 December 2008, the turnover of each business segment was HK$0.6 million, HK$734 million and HK$1.2 million respectively, and the results was profit of HK$5.2 million, HK$10.7 million and a loss of HK$17.8 million respectively.

The Group continues to maintain a conservative approach while keeping a lookout for quality investment opportunities.

There was no future material investment planning as at the balance sheet dated 31 December 2008.

Pledge of assets

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

Capital structure

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

Number of employees, remuneration, policies and share option schemes

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

Exposure to financial risk and related hedges

The Group utilizes conservative strategies on its risk management and the market risk is kept to minimum. With the exception of the UK subsidiary, all transactions and the borrowings of the Group are primarily denominated in US Dollars and/or Hong Kong Dollars. The risk of foreign exchange fluctuations is minimal under the peg. During the period, the exchange rate swap contracts entered by the Group matured and thereafter, the Group did not use any other derivative financial instrument for hedging purposes. The Group had exposure to exchange rate risk as a result of fluctuation in UK pounds during the six months ended 31 December 2008. Management will continue to monitor the foreign exchange exposure and will take appropriate action when necessary. During the six months ended 31 December 2008, the Group did not use any other financial instruments for hedging purposes. As of 31 December 2008, there was no hedging instrument outstanding.

5. INDEBTEDNESS, LIQUIDITY AND FINANCIAL RESOURCES

As at the close of business on 31 May 2009, being the latest practicable date for the purpose of this indebtedness statement prior to the printing of this circular, the Group had total outstanding borrowings of approximately HK$731,228,000, comprising secured interest-bearing bank loans of approximately HK$686,695,000, unsecured interest-bearing promissory notes of approximately HK$43,000,000, unsecured interest-free loans from minority shareholders of approximately HK$1,125,000, and unsecured interest-free amounts due to associates of approximately HK$408,000.

The aforesaid interest-bearing bank loans were secured by the Group's investment properties, certain of its leasehold land and buildings, assignment of rental income of investment properties and corporate guarantees executed by the Company.

As at the close of business on 31 May 2009, the Group did not have any contingent liabilities.

Save as aforesaid and apart from intra-group liabilities, the Group did not, at the close of the business on 31 May 2009, have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, charges or debentures, mortgages, loans or other similar indebtedness, finance leases of hire purchase commitment, liabilities under acceptance (other than normal trade bills and payables), acceptance credits, or any guarantees or other material contingent liabilities.

For the purpose of the above indebtedness statement, foreign currency amounts have been translated into Hong Kong dollars at the applicable rates of exchange prevailing at the close of business on 31 May 2009.

The Directors are not aware of any material changes in the Group's indebtedness and contingent liabilities since 31 May 2009 to the date of this circular.

6. WORKING CAPITAL

The Directors, after due and careful consideration, are of the opinion that, taking into account the banking facilities available to the Group, and the internal financial resources available to the Group, the Group will have sufficient working capital for at least twelve months from the date of this circular.

7. BUSINESS PROSPECTS

The Group is principally engaged in the design, manufacturing, marketing and trading of fine jewellery and diamonds. Having considered the revitalising property market condition and a positive cash inflow, it enables the Group to prepare for future opportunities that may arise.

Going forward, the Group will continue to further develop its core competencies in the jewellery and diamond segments, maintaining a prudent portfolio of property and other investment, while keeping an outlook for strong potential investment opportunities.

1. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the unaudited pro forma consolidated net assets statement and the unaudited pro forma consolidated profit and loss statement of the Group (collectively known as the "Unaudited Pro Forma Financial Information") which have been prepared in accordance with paragraph 29 of Chapter 4 of The Listing Rules for the purpose of illustrating the effect of the Disposal on the financial position of the Remaining Group as if the Disposal had been completed on 31 December 2008 and the results of the Remaining Group as if the Disposal had been completed on 1 July 2008.

As the Unaudited Pro Forma Financial Information is prepared for illustrative purposes only, and because of its hypothetical nature, it may not give a true picture of the financial position and results of the Remaining Group following the completion of the Disposal.

The Unaudited Pro Forma Financial Information is based on the unaudited consolidated net assets of the Group as at 31 December 2008 and the unaudited consolidated profit and loss statement of the Group for the six months ended 31 December 2008 extracted from the published unaudited interim financial report of the Group for the six months ended 31 December 2008, after giving effect to the pro forma adjustments relating to the Disposal that are (i) clearly shown and explained; (ii) directly attributable to the Disposal and not relating to future events or decisions; and (iii) factually supportable.

The Unaudited Pro Forma Financial Information is based on a number of assumptions, estimates and uncertainties. Accordingly, the Unaudited Pro Forma Financial Information does not purport to describe the actual financial position and results of the Remaining Group that would have been attained had the Disposal been completed on 31 December 2008 and on 1 July 2008 respectively. The Unaudited Pro Forma Financial Information does not purport to predict the future financial positions or results of the Remaining Group.

1. UNAUDITED PRO FORMA CONSOLIDATED NET ASSETS STATEMENT

	The Group as at 31 December 2008	Pro forma adjustments			Pro forma Remaining Group as at 31 December 2008
		Note 1	*Note 2*	*Note 3*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
ASSETS AND LIABILITIES					
Non-current assets					
Property, plant and equipment	438,537				438,537
Leasehold land/Land use rights	8,999				8,999
Investment properties	683,000	(683,000)			–
Interests in associates	3,820				3,820
Interests in jointly controlled entities	221,667				221,667
Available-for-sale financial assets	10,149				10,149
Long-term receivables	3,773				3,773
Deferred tax assets	8,890				8,890
	1,378,835				695,835
Current assets					
Inventories	260,809				260,809
Trade receivables	176,224				176,224
Prepayments, deposits and other receivables	27,985				27,985
Current portion of long-term receivables	5,981				5,981
Financial assets at fair value through profit or loss	7,311				7,311
Due from associates	337				337
Due from a jointly controlled entity	117				117
Cash and bank balances	73,416	831,715	(443,148)	(9,725)	452,258
	552,180				931,022

	The Group as at 31 December 2008	Pro forma adjustments			Pro forma Remaining Group as at 31 December 2008
		Note 1	*Note 2*	*Note 3*	
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Current liabilities					
Trade payables	(142,961)				(142,961)
Other payables and accruals	(41,109)			9,725	(31,384)
Provision for tax	(14,314)				(14,314)
Due to associates	(386)				(386)
Bank loans and overdrafts, secured	(210,445)		76,023		(134,422)
	(409,215)				(323,467)
Net current assets	142,965				607,555
Total assets less current liabilities	1,521,800				1,303,390
Non-current liabilities					
Loans from minority shareholders	(1,125)				(1,125)
Deferred tax liabilities	(56,642)	56,179			(463)
Notes payable – promissory note	(50,000)				(50,000)
Bank loans, secured	(534,625)		367,125		(167,500)
	(642,392)				(219,088)
Net assets	879,408				1,084,302

Notes:

(1) The adjustment reflects the elimination of the carrying value of HK$683,000,000 of the Property upon Disposal and the net cash of HK$831,715,000 received from the Disposal. The net cash received is the difference of sale proceeds of HK$838,000,000 and the estimated direct transaction costs of HK$6,285,000 incurred upon completion of the Disposal. The adjustment also reflects the reversal of the deferred tax liability of HK$56,179,000 in relation to the accelerated tax depreciation and revaluation of the Property recognised in prior years. The deferred tax liabilities were recognised in prior years in accordance with Hong Kong Accounting Standard 12 "Income Taxes", which represented the tax effect on the temporary difference between the tax base and carrying amount of the Property.

According to the provisional agreement for sale and purchase (the "Provisional Agreement") entered between Crystal Gain Development Limited (the "Vendor") and Winvote Century Limited (the "Purchaser"), the Purchaser agrees to purchase the Property from Vendor, at a cash consideration of HK$838,000,000.

(2) The adjustment reflects the repayment of the bank borrowings of HK$443,148,000 in full in respect of the release of the pledge for the Property out of the proceeds received from the Disposal.

(3) The adjustment reflects the transfer of the rental deposits to the Purchaser of HK$9,725,000. In accordance with the Provisional Agreement, subject to the Purchasers' execution and delivery of a deed of indemnity to the Vendor and each of the tenants of the Property, the Vendor shall transfer the rental deposits in full without any deduction or set off, paid by the tenants under the tenancy agreements of the Property, to the Purchaser upon completion of the Disposal.

(4) For the purpose of preparing the pro forma consolidated net assets statement, upon completion of the Disposal, it is assumed that the gain from the Disposal is of a capital nature and not subjected to Hong Kong profits tax.

2. UNAUDITED PRO FORMA CONSOLIDATED PROFIT AND LOSS STATEMENT

	The Group for the six months ended 31 December 2008	Pro forma adjustments Note 1	Note 2	Pro forma Remaining Group for the six months ended 31 December 2008
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	754,208	(18,346)		735,862
Cost of sales	(675,266)			(675,266)
Gross profit	78,942			60,596
Selling and distribution costs	(11,826)			(11,826)
Administrative expenses	(54,683)	2,955		(51,728)
Other operating expenses	(5,082)			(5,082)
Changes in fair value of investment properties	(53,920)	57,000	91,715	94,795
(Loss)/Profit from operations	(46,569)			86,755
Finance costs	(8,291)	6,301		(1,990)
Share of results of associates	77			77
Share of results of jointly controlled entities	7,495			7,495
(Loss)/Profit before income tax	(47,288)			92,337
Income tax credit/(expense)	6,993	(7,932)	65,584	64,645
(Loss)/Profit for the period	(40,295)			156,982
Attributable to:				
Equity holders of the Company	(40,295)	39,978	157,299	156,982
Minority interests	–			–
(Loss)/Profit for the period	(40,295)			156,982

Notes:

(1) The adjustment reflects the exclusion of the income and expenses attributable to the Property for the six months ended 31 December 2008 as if the Disposal had been completed on 1 July 2008.

(2) The adjustment reflects the changes in fair value of investment properties on disposal of the Property of HK$91,715,000 after taking account of the gross sale proceeds of HK$838,000,000 less the carrying amount of the Property as at 1 July 2008 of HK$740,000,000 and the estimated direct transaction costs of HK$6,285,000 in relation to the Disposal as if the Disposal had been completed on 1 July 2008. The adjustment also reflects the reversal of deferred tax liabilities of HK$65,584,000 in relation to the accelerated tax depreciation and revaluation of the Property recognised in prior years as if the Disposal had been completed on 1 July 2008. The deferred tax liabilities were recognised in prior years in accordance with Hong Kong Accounting Standard 12 "Income Taxes", which represented the tax effect on the temporary difference between the tax base and carrying amount of the Property.

(3) For the purpose of preparing the pro forma consolidated profit and loss statement, upon completion of the Disposal, it is assumed that the gain from the Disposal is of a capital nature and not subject to Hong Kong profits tax.

3. ACCOUNTANTS' REPORT ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE REMAINING GROUP

The following is the full text of the accountants' report from the Company's reporting accountants, Grant Thornton, Certified Public Accountants, Hong Kong, for incorporation in this Circular:

GrantThornton
均富

Member of Grant Thornton International Ltd

10 July, 2009

The Directors
Continental Holdings Limited
Flats M & N, 1st Floor
Kaiser Estate, Phase III
11 Hok Yuen Street
Hunghom Kowloon
Hong Kong

Dear Sirs

We report on the unaudited pro forma financial information of Continental Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors of the Company for illustrative purposes only, to provide information about how the proposed disposal of Continental Diamond Plaza, which located at Nos. 523, 525, 527 Hennessy Road, Hong Kong might have affected the financial information presented, for the inclusion in Appendix III of the Company's circular dated 10 July, 2009 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in the section headed "Unaudited Pro Forma Financial Information of the Remaining Group" in Appendix III to the Circular.

Respective responsibilities of directors of the Company and reporting accountants

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 29 of Chapter 4 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 29 of Chapter 4 of the Listing Rules, on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our engagement in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 "Accountants' Reports on Pro Forma Financial Information in Investment Circulars" issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with source documents, considering the evidence supporting the adjustments and discussing the unaudited pro forma financial information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagements issued by the HKICPA, and accordingly, we did not express any such assurance on the unaudited pro forma financial information.

The unaudited pro forma financial information is for illustrative purposes only, based on the judgements and assumptions of the directors of the Company, and because of its hypothetical nature, does not give any assurance or indication that any event will take place in the future and may not be indicative of:

– the financial position of the Group as at 31 December 2008 or any future date; or

– the results of the Group for the six months ended 31 December 2008 or any future period.

Opinion

In our opinion:

(a) the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated;

(b) such basis is consistent with the accounting policies of the Group; and

(c) the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 29(1) of Chapter 4 of the Listing Rules.

Yours faithfully

Grant Thornton
Certified Public Accountants
13th Floor, Gloucester Tower
The Landmark
15 Queen's Road Central
Hong Kong

Valuation of the Property

The following is the text of the letter and valuation certificate received from, Chung, Chan & Associates, an independent property valuer, prepared for the purpose of inclusion in this circular in connection with their valuation of the Property.

Chung,Chan &Associates
Chartered Surveyors
Professional Valuers of all types of Property, Business and Assets,
Plant, Machinery and Equipment
Professional Real Estate Advisers

衡量行

Suite 1801, Yue Xiu Building,
160-174 Lockhart Road,
Hong Kong

10 July, 2009

The Directors,
Continental Holdings Limited,
Units M & N, 1st Floor, Kaiser Estate, Phase III,
11 Hok Yuen Street, Hunghom,
Kowloon,
Hong Kong

Dear Sirs,

Re: Continental Diamond Plaza, Nos. 523, 525 and 527 Hennessy Road, Hong Kong.

In accordance with your instructions to value the above property interest which is held by Continental Holdings Limited (the "Company") and its subsidiary (hereinafter together referred to as the "Group") for the purpose relating to a Very Substantial Disposal of the property, we have carried out an inspection of the property, made relevant enquiries and have obtained such further information as we consider necessary for the purpose of providing you with our opinion of the capital value or market value of the property interest as at 31 May, 2009, (the "date of valuation") for inclusion in the circular of the Company dated 10 July, 2009. Our valuation undertaken herein is in compliance with the requirements as set out in Chapter 5 and Practice Note 12 of the Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Our valuation of the above property interest is our opinion of its market value which, in accordance with the Valuation Standards on Properties (First Edition, 2005) as laid down by the Hong Kong Institute of Surveyors (HKIS) and the RICS Valuation Standards (6th Edition, 2008) as published by the Royal Institution of Chartered Surveyors (RICS), is defined as intended to mean "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Our valuation has been made on the assumption that the owner sells the property interest on the market in its existing state without the benefit of a deferred terms contract, sale and leaseback, joint venture, unusual financing, management agreement, concessionary engagement or any similar arrangement which would serve to enhance, affect or diminish the value of the property. In addition, no account is taken of any option or pre-emptive right relating to or affecting the sale of the property and no forced sale in any form in respect of the property has been assumed in our valuation.

We are advised that, as at the date of valuation, all of the floors and units in the building comprising the main part of the subject property with the exception of one floor are tenanted. The remaining floor has since 8 June, 2009 been leased out for a term of 3 years commencing on 17 July, 2009. Accordingly the property has been valued on the basis of its market value subject to and with the benefit of the existing tenancies and leases by the comparison approach and by capitalisation of the net income which are derived from the tenancies or leases with allowance given for outgoings and where applicable provisions made for reversionary income potential, and with reference to market comparables wherever possible.

We have relied to a considerable extent on information given by the Group and have accepted advice given to us in relation to planning approvals or statutory notices, easements, tenure, completion date of construction of the building, agreements, particulars of occupancy including rents and terms of tenancies and leases, floor areas and other relevant matters.

We have not been provided with copies of title documents relating to the property but we have caused searches to be made at the Land Registry. However, we have not inspected the original documents to verify ownership or to ascertain the existence of any lease amendments which do not appear on the copies provided to us.

All copies of documents relating to the property interest have been used as reference only. All dimensions, measurements and floor areas as stated in our valuation certificate are approximate and are based on information provided to us by the Group. Also, the floor areas in respect of the various floors and units in the building as shown on the copies of documents or from information supplied to us by the Group are assumed to be correct. No on-site measurements have been taken or carried out to determine the floor areas of the property or to verify their correctness.

All the information provided to us by the Group, which are pertinent to our valuation, are believed to be true and accurate and it is assumed that no material facts have been omitted from the information given to us.

We are instructed to express our opinion on the market value of the property and in the capacity of an external valuer, we have not undertaken any building survey to report on the condition or state of repair of the property although in the course of our inspection, we did not note any serious defects. However, we must advise that we cannot express an opinion about or give advice on the condition of the uninspected parts of the property or report on whether or not those parts of the property, which are concealed, unexposed or inaccessible are free of rot, infestation or other structural defects, whether latent or otherwise. For the purpose of our valuation, the aforesaid parts of the property are assumed to be in a good state of repair and condition and this report should not be construed as making any implied representation or statement about the condition of such parts. None of the services in respect of the property has been tested.

We have not arranged for any investigation to be conducted or tests to be carried out to determine whether or not any deleterious or hazardous materials have been used in the construction of the building comprising the main part of the property, or whether such materials have since been incorporated, and we are therefore unable to report that the property is free from such risk. However, for the purpose of our valuation, we have assumed that should such an investigation be carried out it would not reveal the presence of any such materials to any significant extent.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property and neither has any allowance been made for any liability to taxation on sale or any expenses which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value. The aforementioned assumption is a standard statement or limiting condition which we, as professional valuers, would need to include in this valuation report. We cannot be in the position to verify all of the information in respect of encumbrances or restrictions, etc. relating to the property as these are legal matters which are outside the scope of our work. With regard to the subject property, we have conducted title searches on the property, which are relevant to the preparation of a valuation report but there could be encumbrances which we do not know about or have not been registered as at the date of valuation. We would also need to rely on information and advice from the Company that no encumbrance or restriction, etc. of an onerous nature exists. An encumbrance such as a mortgage would not affect the value of a property but certain encumbrances may but as at the date of valuation we are not aware of any such encumbrances.

In accordance with your instructions, we are required to express our opinion on the market value of the property interest in the local currency, and that is Hong Kong Dollars.

We enclose herewith our valuation certificate in respect of the property.

Yours faithfully,
CHUNG, CHAN & ASSOCIATES
Peter C. K. Chung
FRICS FHKIS MIS(M) PDABV

Note: Mr. Peter Chung is a Chartered Surveyor, a Fellow of the Royal Institution of Chartered Surveyors and a Fellow of the Hong Kong Institute of Surveyors, and has been conducting professional valuations of property and other assets as well as providing professional advisory work in Hong Kong, Macau, mainland China, the Asia Pacific region, Europe and America for over 25 years.

VALUATION CERTIFICATE

Property	Description and tenure	Particulars of occupancy	Market value in existing state as at 31 May, 2009
Continental Diamond Plaza, Nos. 523, 525 and 527 Hennessy Road, Hong Kong The Remaining Portions of Sub-sections 21, 26 and 27 of Section D of Marine Lot No. 52 and the Extensions thereto.	The property comprises a 26-storey (including basement) commercial/office development which has a frontage to Hennessy Road in the established and busy commercial and tourist shopping district of Causeway Bay in which all amenities are available. Hennessy Road is the main shopping thoroughfare in this part of Hong Kong connecting Causeway Bay with Wanchai and is also the main bus and tram route. The nearest MTR station is that of ‘Causeway Bay’ which is within 3 minutes walking distance of the property. The construction of the building is believed to have been completed in late 2004 or thereabouts. We are advised that the total gross floor area (GFA) and total saleable area of the building are respectively 43,308.25 sq. ft. (4,023.43 sq. m.) and 27,257.00 sq. ft. (2,532.24 sq. m.) approximately, which are made up as follows:–	As at the date of valuation, all of the floors in the building, with the exception of the 28th Floor, are subject to tenancies and leases at a total rent of HK$2,843,500.00 per month, exclusive of rates and management fees. The majority of the tenancies and leases commenced on different dates in 2008 with one lease in 2006, three leases in 2007 and two other leases in 2009. The majority of the tenancies and leases expire on different dates in 2011 with one lease expiring in 2009 and six other tenancies and leases in 2010. Two of the tenancies and leases have options to renew for a further term of one year each whilst 15 tenancies and leases have options to renew for further terms of two years. Each of the remaining six tenancies and leases has an option to renew for a further term of three years. The 28th Floor is, as at the date of valuation, vacant but it will be leased out for three years from 17 July, 2009 until 16 July, 2012 at a rent of HK$52,500 per month, exclusive of rates and management fee. We are advised by the Group that the tenancy agreement in respect of the aforementioned floor has been signed on 8 June, 2009.	HK$800,000,000

Floor	GFA *(sq. ft.)*	Saleable area *(sq. ft.)*
B/F	2,191.26	1,543
G/F	1,878.22	1,214
1/F	2,355.07	1,403
2/F	2,395.08	1,448
3/F	2,505.22	1,529
7/F-18/F	15,994.10 (1,599.41 each floor)	10,070 (1,007 each floor)
19/F-29/F	15,989.30 (1,598.93 each floor)	10,050 (1,005 each floor)
Total	43,308.25	27,257

The property is held under three Government leases each for a term of 999 years from 25 June, 1843. The ground rent payable in respect of the Lots is $18 per annum.

Notes:-

1. The registered owner of the property interest is Crystal Gain Developments Limited, a wholly-owned subsidiary of the Company.

2. Our valuation of the property is based on a 100 per cent attributable interest.

1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. DIRECTORS' INTERESTS

(a) As at the Latest Practicable Date, the interests and short positions of each Director and chief executive of the Company in the shares or underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which he was deemed or taken to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

Long position in the Shares

Name of Director	Capacity	Number and class of Shares held	Approximate percentage of interest
Chan Sing Chuk, Charles (“**Mr. Chan**”)	Interest in a controlled corporation	158,816,303 ordinary *(Note 1)*	50.768%
Cheng Siu Yin, Shirley	Interest in a controlled corporation	158,816,303 ordinary *(Note 1)*	50.768%
Chu Wai Kok *(Note 2)*	Beneficial owner	8,000 ordinary	0.003%
Chan Ping Kuen, Derek *(Note 3)*	Beneficial owner	20,000 ordinary	0.006%

Note:

1. These shares are held by a company, Tamar Investments Group Limited (“Tamar Investments”), which is owned by Mr. Chan and his wife Ms. Cheng Siu Yin, Shirley in equal share.

2. This information is based on the knowledge of Mr. Chu Wai Kok.

3. This information is based on the knowledge of Mr. Chan Ping Kuen, Derek.

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors or chief executive of the Company had any interest and short positions in the shares, underlying shares and debentures of the Company or any associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including the interests and short positions in which they were deemed or taken to have under such provisions of the SFO), or which are required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

(c) An agreement ("**Acquisition Agreement**") dated 4 July 2008 was entered into between Invest Companion Limited, a wholly-owned subsidiary of the Company, and Brilliant Top Properties Limited, a company wholly-owned by Mr. Chan, in relation to the acquisition of the entire issued share capital and shareholder's loan in Precious Palace International Limited at HK$389,500,000 less the amount of the mortgage loan (if any) outstanding as at the completion date, details of which were set out in the announcement of the Company dated 9 July 2008 and the circular of the Company dated 27 August 2008. Other than the transactions contemplated under the Acquisition Agreement, as at the Latest Practicable Date, none of the Directors had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 30 June 2008, the date to which the latest published audited financial statements of the Group were made up.

(d) As at the Latest Practicable Date, none of the Directors was materially interested, directly or indirectly, in any contract or arrangement entered into by any member of the Group since 30 June 2008, being the date to which the latest published audited financial statements of the Company were made up, and which was significant in relation to the business of the Group.

(e) As at the Latest Practicable Date, none of the Directors or their respective associates was interested in any business apart from the business of the Group, which competed or was likely to compete, either directly or indirectly, with that of the Group.

(f) Mr. Chan has a service contract with the Company for an indefinite period, which may be terminated by either party giving three months' written notice. Save as disclosed above, none of the Directors had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation as at the Latest Practicable Date.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS

(a) As at the Latest Practicable Date, so far as is known to the Directors, the following persons, other than a director or chief executive of the Company, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or were directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company:

Long position in the Shares:

Name of Shareholder	Number of Shares	Capacity	Approximate percentage of interest
Tamar Investments	158,816,303 ordinary	Beneficial owner	50.768%

(b) Save as disclosed in this circular, so far as is known to the Directors, there is no other person who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or, had a direct or indirect interests amounting to 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any members of the Group.

4. MATERIAL CONTRACTS

Within the two years immediately preceding the Latest Practicable Date, the following agreements, being contracts not entered into in the ordinary course of business, has been entered into by members of the Group and is or may be material:

(a) the provisional agreement for sale and purchase dated 12 December 2007 and entered into between Poly Jade Development Limited ("**Poly Jade**") as vendor and Aplha Fortune Properties Limited ("**Aplha Fortune**") as purchaser pursuant to which Poly Jade agreed to dispose of a property situated at Nos. 2 – 6 Bowring Street, Kowloon, Hong Kong in Hong Kong at a consideration of HK$105,000,000;

(b) the assignment dated 28 February 2008 and entered into between Poly Jade as assignor and Aplha Fortune as assignee in relation to the assignment of the property situated at Nos. 2 – 6 Bowring Street, Kowloon, Hong Kong in Hong Kong at a consideration of HK$105,000,000;

(c) the provisional agreement for sale and purchase dated 5 March 2008 and entered into between Hon Cheong Limited as vendor and Well Friendship Investment Limited ("**Well Friendship**") as purchaser in relation to the acquisition of the land site situated at 236-242 Des Voeux Road Central, Hong Kong on which a commercial building known as Yien Yieh Commercial Building was formerly erected thereon ("**Central Property**"), by Well Friendship at HK$335,000,000;

(d) the sale and purchase agreement dated 14 April 2008 entered into between Well Friendship as purchaser and Hon Cheong Limited as vendor in relation to the acquisition of the Central Property at a consideration of HK$335,000,000;

(e) the Acquisition Agreement;

(f) the mortgage of the Central Property dated 31 July 2008 and entered into between Well Friendship as mortgagor and the Hongkong and Shanghai Banking Corporation Limited as mortgagee relating to a mortgage loan of HK$167.5 million;

(g) the assignment dated 31 July 2008 and entered into between Hon Cheong Limited as assignor and Well Friendship as assignee in relation to the assignment of the Central Property at HK$335,000,000; and

(h) the Provisional Agreement.

5. LITIGATION

As at the Latest Practicable Date, none of the members of the Group was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

6. EXPERTS AND CONSENTS

(a) The following are the qualifications of the experts who have given its opinions and advice which are included in this circular:

Name	**Qualification**
Grant Thornton ("**GT**")	Certified Public Accountants
Chung, Chan & Associates ("**CC**")	Chartered Surveyors

(b) None of GT and CC has any shareholding, directly or indirectly, in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

(c) Each of GT and CC has given and has not withdrawn its written consent to the issue of this circular, with the inclusion of the references to its name and/or its opinion in the form and context in which they are included.

(d) None of GT and CC had any direct or indirect interest in any asset which had been acquired, or disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group since 30 June 2008, the date to which the latest published audited financial statements of the Group were made up.

7. MISCELLANEOUS

(a) The registered head office of the Company is located at Flats M and N, 1st Floor, Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong.

(b) The secretary of the Company is Ms. Lee Ching Sze Susana. Ms. Lee is a practising lawyer in Hong Kong and a partner of Chiu & Partners, being the legal advisers to the Company in connection with the Disposal.

(c) The share registrar and transfer office of the Company is Computershare Hong Kong Investor Services Limited at 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.

(d) In the event of inconsistency, the English text of this circular shall prevail over the Chinese text.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours at the registered office of the Company in Hong Kong at Flats M and N, 1st Floor, Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong, from the date of this circular up to and including the date of the EGM:

(i) the memorandum and articles of association of the Company;

(ii) the audited financial statements of the Group for each of the three financial years ended 30 June 2008;

(iii) the unaudited financial statements of the Group for the six months ended 31 December 2008;

(iv) the report from GT on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix III to this circular;

(v) the letter and valuation certificate prepared by CC in respect of the Property, the text of which is set out in Appendix IV to this circular;

(vi) the service contract referred to in the sub-paragraph (f) of the paragraph headed "Directors' interests" in this Appendix;

(vii) the material contracts referred to in the paragraph headed "Material contracts" in this Appendix;

(viii) the letters from GT and CC referred to in the section headed "Experts and Consents" in this Appendix;

(ix) the circular of the Company dated 27 August 2008; and

(x) this circular.

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

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00513)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that the extraordinary general meeting of Continental Holdings Limited ("**Company**") will be held at Ballroom Three, 18/F, The Mira Hong Kong, 118 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Monday, 27 July 2009 at 11:00 a.m. for the purpose of considering and, if thought fit, passing the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**

(a) the agreement ("**Provisional Agreement**") dated 16 June 2009 and entered into between Crystal Gain Developments Limited as vendor and Winvote Century Limited as purchaser in relation to the sale and purchase of the property located at Nos. 523, 525, 527 Hennessy Road, Hong Kong, namely Continental Diamond Plaza ("**Disposal**"), (copy of which has been produced to the meeting marked "A" and signed by the chairman of the meeting for the purpose of identification) and all agreements and transactions contemplated thereby be and are hereby approved;

(b) the directors of the Company ("**Directors**") be and are hereby authorised, for and on behalf of the Company, to take all steps necessary or expedient in their opinion to implement and/or give effect to the terms of the Provisional Agreement, the Disposal and all agreements and transactions contemplated thereby; and

(c) the Directors be and are hereby authorised, for and on behalf of the Company, to execute all such other documents, instruments and agreements and to do all such acts or things deemed by them to be incidental to, ancillary to or in connection with the matters contemplated under the Provisional Agreement, the Disposal and all agreements and transactions contemplated thereby and to agree to any amendment to any of the terms thereof which in the opinion of the Directors is not of a material nature and is in the interests of the Company."

For and on behalf of the board of directors of
Continental Holdings Limited
Chan Sing Chuk, Charles
Chairman

Hong Kong, 10 July 2009

Registered Office:
Flats M and N, 1st Floor
Kaiser Estate, Phase III
11 Hok Yuen Street
Hunghom, Kowloon
Hong Kong

Notes:

(1) A member entitled to attend and vote at the above meeting may appoint a proxy to attend and, on a poll vote on his behalf and such proxy need not be a member of the Company. A form of proxy for use at the meeting is enclosed.

(2) In order to be valid, the form of proxy, together with any power of attorney or authority under which it is signed or a notarially certified copy of that power of attorney or authority, must be deposited at the registered office of the Company at Flats M and N, 1st Floor, Kaiser Estate, Phase III, 11 Hok Yuen Street, Hunghom, Kowloon, Hong Kong not less than 48 hours before the time appointed for holding the meeting or any adjournment thereof.

(3) Completion and return of the form of proxy will not preclude a shareholder of the Company from attending and voting in person at the meeting convened or any adjournment thereof and in such event, the authority of the proxy shall be deemed to be revoked.

(4) In the case of joint holders of a share, any one of such joint holders may vote, either in person or by proxy, in respect of such share as if he/she/it were solely entitled thereto to. If more than one of such joint holders are present at the above meeting, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders. For this purpose, seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(5) As at the date of this notice, Dr. Chan Sing Chuk, Charles BBS, JP, Ms. Cheng Siu Yin, Shirley, Ms. Chan Wai Kei, Vicki and Mr. Chan Wai Lap, Victor are executive Directors, Mr. Chu Wai Kok is a non-executive Director, Mr. Wong Kai Cheong, Mr. Yu Shiu Tin, Paul BBS, MBE, JP, Mr. Chan Ping Kuen, Derek and Mr. Sze, Irons are independent non-executive Directors.