king fook holdings limited

景福集團有限公司

For The Year Ended 31st March, 2006

ANNUAL REPORT

Stock Code: 280

Contents

Corporate Information

Board of directors	*	Mr. Yeung Ping Leung, Howard *(Chairman)*
	*	Mr. Tang Yat Sun, Richard, B.Sc., M.B.A., B.B.S., J.P. *(Vice Chairman)*
		Dr. Sin Wai Kin, D.S.Sc. (Hon.)
	*	Mr. Cheng Ka On, Dominic
	*	Mr. Yeung Bing Kwong, Kenneth
	*	Ms. Fung Chung Yee, Caroline
	+	Mr. Lau To Yee
	+	Mr. Cheng Kar Shing, Peter
		Mr. Wong Wei Ping, Martin
	+	Mr. Chan Chak Cheung, William
		Mr. Ho Hau Hay, Hamilton
		Mr. Sin Nga Yan, Benedict
	*	*Executive Directors*
	+	*Independent Non-executive Directors*
Secretary		Ms. Cheung Kit Man, Melina
Auditors		Grant Thornton *Certified Public Accountants*
Principal bankers		ABN AMRO Bank N.V. BNP Paribas China Construction Bank Hang Seng Bank Limited The Hongkong and Shanghai Banking Corporation Limited Industrial and Commercial Bank of China (Asia) Limited The Bank of Tokyo-Mitsubishi UFJ, Limited
Solicitors		Jennifer Cheung & Co.
Registered office		9th Floor, King Fook Building 30–32 Des Voeux Road Central Hong Kong
Share registrars and transfer office		Computershare Hong Kong Investor Services Limited 17th Floor, Hopewell Centre 183 Queen's Road East Hong Kong

Brief Biographical Details of the Directors and the Senior Management

DIRECTORS

Mr. Yeung Ping Leung, Howard (Chairman)

Aged 49. A director of New World Development Company Limited and Miramar Hotel and Investment Company, Limited (a substantial shareholder of the Company). Appointed director and chairman of the Company in 1987 and 1998 respectively.

Mr. Tang Yat Sun, Richard, B.Sc., M.B.A., B.B.S., J.P. (Vice Chairman)

Aged 53. A MBA graduate from The University of Santa Clara, California, USA and a holder of Bachelor of Science degree in Business Administration from Menlo College, California, USA. The chairman and managing director of Richcom Company Limited. A director of Miramar Hotel and Investment Company, Limited (a substantial shareholder of the Company), Hang Seng Bank Limited and various private business enterprises. A member of Tang Shiu Kin and Ho Tim Charitable Fund. Appointed director and vice chairman of the Company in 1987 and 1998 respectively.

Dr. Sin Wai Kin, D.S.Sc. (Hon.)

Aged 76. The chairman of Myer Jewelry Manufacturer Limited. The vice chairman of Miramar Hotel and Investment Company, Limited, which is a substantial shareholder of the Company. An executive director of New World Development Company Limited. A director of Hang Seng Bank Limited. Appointed director of the Company in 1987.

Mr. Cheng Ka On, Dominic

Aged 56. A director of Miramar Hotel and Investment Company, Limited, which is a substantial shareholder of the Company. The managing director of the Onflo International Group of Companies. Appointed director of the Company in 1987.

Mr. Yeung Bing Kwong, Kenneth

Aged 61. Has over 30 years of experience in the jewellery business. Appointed director of the Company in 1987.

Ms. Fung Chung Yee, Caroline

Aged 53. A fellow member of The Association of Chartered Certified Accountants of the United Kingdom. Joined the Group in 1983 and appointed director of the Company in 1987.

Mr. Lau To Yee (Independent Non-executive Director)

Aged 68. A director of Bestfaith Management Limited and a governor of Albert Young Foundation Limited. Appointed independent non-executive director of the Company in 1994.

Mr. Cheng Kar Shing, Peter (Independent Non-executive Director)

Aged 53. A director of New World Development Company Limited and NWD (Hotels Investments) Limited. An executive director of New World China Land Limited. Appointed independent non-executive director of the Company in 1997.

Mr. Wong Wei Ping, Martin

Aged 63. A director of Citizen Thunderbird Travel Limited, Columbia Express Limited and Pinon Limited. Appointed director of the Company in 2000.

DIRECTORS (Continued)

Mr. Chan Chak Cheung, William (Independent Non-executive Director)

Aged 58. A retired partner of PricewaterhouseCoopers after a career spanning 33 years in Canada, Hong Kong and China. Was partner in charge of China Tax Services at PricewaterhouseCoopers, overseeing the advisory practice of 30 partners and over 500 professional staff in 9 offices. Specialised in advising foreign companies on their China entry and expansion strategies, ownership and financial structures, and on mergers and acquisitions. A member of the Canadian Institute of Chartered Accountants. Appointed independent non-executive director of the Company in 2004.

Mr. Ho Hau Hay, Hamilton

Aged 55. An independent non-executive director of CITIC Pacific Limited, a non-executive director of New World Development Company Limited and a director of Dah Chong Hong Holdings Limited. An executive director of Honorway Investments Limited and Tak Hung (Holding) Company Limited. Appointed director of the Company in 2004.

Mr. Sin Nga Yan, Benedict

Aged 42. A director and general manager of Myer Jewelry Manufacturer Limited. An associate of the Australian Society of Certified Practising Accountants. A solicitor of each of the Supreme Court of New South Wales, Australia, the Supreme Court of England and Wales and the High Court of Hong Kong. A committee member of the Jewellery Advisory Committee of The Hong Kong Trade Development Council, a permanent honorary director of The Federation of Hong Kong Watch Trades & Industries Limited, a director of the Council of Management of Hong Kong Jewellery & Jade Manufacturers Association, and a member of the Assembly of General Committee of Hong Kong Jewelry Manufacturers' Association. Appointed director of the Company in 2006.

(Mr. Yeung Bing Kwong, Kenneth and Mr. Yeung Ping Leung, Howard are brothers and Mr. Wong Wei Ping, Martin is their brother-in-law. Mr. Sin Nga Yan, Benedict is the son of Dr. Sin Wai Kin.)

SENIOR MANAGEMENT

Ms. Wong Ka Ki, Kay

Aged 48. The general manager of the Group. She joined the Group in 1999 and is responsible for the Group's overall management and business development. She has extensive management experience in the service and retail industry.

Mr. Luk Kwing Yung

Aged 58. The general manager of King Fook Jewellery Group Limited. He has extensive management experience in the retail industry, specialising in gold and jewellery and watches retailing. He has been with the Group for 40 years.

Mr. Lee Kwok Wah

Aged 40. The financial controller of the Group. A fellow member of The Association of Chartered Certified Accountants of the United Kingdom and a member of The Hong Kong Institute of Certified Public Accountants. Has over 19 years of experience in finance and accounting. Joined the Group in 1996.

Chairman's Statement

In this financial year, the Hong Kong retail sector benefited from the positive market sentiments as a result of the booming property market, decrease in the unemployment rate and the relaxation of travel restrictions by the Chinese Government on mainland travellers. Overall, the Group has achieved a profitable operating result in the year ended 31st March, 2006.

REVIEW OF OPERATIONS

For the year ended 31st March, 2006, the Group's consolidated profit before taxation amounted to HK$22,003,000. During the year, the Group disposed available-for-sale investments at a profit of HK$13,082,000. The Group's turnover for the year increased by 18% as compared with that of last year.

The Group benefited from the improving economic environment with booming property market, improving salary level and increasing number of individual travellers from Mainland China during the year. Turnover of the Group's gold ornament, jewellery, watch and gift retailing business for the year increased to HK$698 million.

During the year under review, the commission income from the securities broking division of the Group decreased by 15% as a result of the keen competition among brokers and with banks in Hong Kong.

The Company has discovered that a former director of King Fook Securities Company Limited ("KF Securities"), a wholly owned subsidiary of the Company, may have misappropriated securities belonging to clients of KF Securities. KF Securities has taken out an insurance policy with a cover of HK$15 million (subject to an excess of HK$3 million). The value of misappropriated clients' securities is estimated to be approximately HK$28.8 million, and a provision of HK$16.8 million has been charged to the income statement accordingly for the year.

DIVIDEND

The Board of Directors resolved to recommend the payment of a final dividend of HK0.8 cent (2005: HK0.8 cent) per ordinary share to shareholders whose names appear on the Register of Members of the Company on 31st August, 2006. Subject to the approval of shareholders at the coming annual general meeting, the dividend warrants for the proposed final dividend will be dispatched by mail to shareholders on or about 6th September, 2006.

PROSPECTS

The economic environment of Hong Kong is improving with growing employment rate, active property market and increasing number of tourists, especially from Mainland China. These favourable factors are expected to benefit the retail business of the Group. Nonetheless, the management believes the escalating rental payment and staff cost in Hong Kong are two imminent unfavourable factors for the Group in the coming year. In order to counteract the impact of such factors, the management will continue to introduce more international branded jewellery to Hong Kong and to develop markets in respect of gold ornaments, jewellery, watches and gifts in major cities in the Mainland China. In respect of the Group's securities broking business, it is expected that the Group's future profit attributable to this division will continue to shrink due to the keen competition in the industry.

The Group has launched "Anna Maria Cammilli" brand jewellery from Italy and Swiss "Alain Philippe" jewellery watches to expand its luxury product range.

Chairman's Statement (Continued)

PROSPECTS (Continued)

The Group has agreed to rent premises on 1st Basement Level of the Shopping Arcade at Hotel Miramar, Tsimshatsui, Kowloon. It has also obtained the approval of the shareholders of the Company to rent premises on 2nd Basement Level of the said Shopping Arcade to expand the business activities of the Group. The relevant tenancy agreements are expected to be signed within this year.

The Group has also obtained the authorisation of the Company's shareholders to dispose of all the 1,874,000 shares of Hong Kong Exchanges and Clearing Limited held by KF Securities. The Board of Directors will monitor the market condition and dispose of such shares in the market when appropriate to recognise the gain.

The management will continue its prudent management policy and take steps to improve the Group's businesses. In order to maintain a high standard of customer services, the management will provide further training and development program to its staff.

APPRECIATION

On behalf of the Board of Directors, I would like to thank our staff members for their support in the past year.

Yeung Ping Leung, Howard
Chairman

Hong Kong, 4th July, 2006

Management Discussion and Analysis

OVERALL GROUP RESULTS

The results of the Group for the year ended 31st March, 2006 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 22 to 73.

The Group's turnover for the year under review increased by 18% as compared with that of the previous year. The Group's consolidated net profit attributable to the shareholders of the Company for the year was HK$17,947,000. The earnings per share were HK4.1 cents.

JEWELLERY RETAILING

Turnover of the Group's gold ornament, jewellery, watch and gift retailing business for the year increased from HK$616 million to HK$698 million.

SECURITIES BROKING

During the year under review, commission income from the securities broking division of the Group decreased by 15% as compared with that of the previous year as a result of keen competition within the industry and the introduction of on-line brokerage services by many banks in Hong Kong.

INVESTMENTS

As at 31st March, 2006, the Group held 2,224,000 shares in Hong Kong Exchanges and Clearing Limited amounting to HK$104,083,000 and certain available-for-sale investments listed outside Hong Kong amounting to HK$8,120,000.

The Group has obtained the authorisation of the Company's shareholders to dispose of all the 1,874,000 shares of Hong Kong Exchanges and Clearing Limited held by King Fook Securities Company Limited ("King Fook Securities"), a wholly owned subsidiary of the Company. The directors will monitor the market condition and dispose of such shares in the market when appropriate to recognise the gain.

FINANCE

As at 31st March, 2006, the Group's current assets and current liabilities were about HK$719 million and HK$188 million respectively. There were bank balances and cash of about HK$50 million and unsecured bank loans of about HK$181 million.

Based on the total borrowings of the Group of about HK$206 million and the capital and reserves attributable to the shareholders of the Company of about HK$576 million as at 31st March, 2006, the overall borrowings to equity ratio was 35.8%, which was at a healthy level.

The Group had foreign currency exposure in Renminbi and Swiss Francs. The management considers the Group's foreign exchange exposure insignificant.

Management Discussion and Analysis (Continued)

PROVISION

The Company had discovered that a former director of King Fook Securities might have misappropriated securities belonging to clients of King Fook Securities. At the best estimates of the directors of the Company, such securities have a total market value of about HK$28,800,000. King Fook Securities has taken out an insurance policy with a cover of HK$15 million (subject to an excess of HK$3 million). A full provision of HK$16,800,000 on the net exposure, representing the market value of the securities less insurance covered resulting from this event was charged to the income statement during the year ended 31st March, 2006.

CONTINGENCIES

As at 31st March, 2006, the Group had contingent liabilities in respect of bank guarantees up to HK$5 million given to third parties and other matters arising in the ordinary course of business.

INTERNAL CONTROL

The directors have appointed Grant Thornton to conduct a review of the effectiveness of the Group's internal control system covering all controls, including financial, operation and compliance and risk management controls and the result will be reported to the Audit Committee upon completion of the review in due course.

EMPLOYEES AND EMOLUMENT POLICY

As at 31st March, 2006, the Group had approximately 280 employees. The employees (including directors) are remunerated according to the nature of their jobs, experience and contribution to the Group. The Group has an incentive bonus scheme to reward the employees based on their performance. It also provides training and development program to employees to improve the standard of customer services.

The Company has adopted a share option scheme whereby options may be granted to employees and directors of the Group as incentive for them to contribute to the business of the Group.

The directors would like to present their report together with the audited financial statements for the year ended 31st March, 2006.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year, which arose mainly in Hong Kong, by business segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 22.

The directors declared an interim dividend of HK0.45 cent per ordinary share, totalling HK$1,958,000. The interim dividend was paid on 13th January, 2006.

The directors recommend the payment of a final dividend of HK0.8 cent per ordinary share, totalling HK$3,481,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 27 and 28 and note 32 to the financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st March, 2006, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to HK$188,910,000 (2005: HK$176,098,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in note 15 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 75.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
— the largest supplier	15%
— five largest suppliers combined	39%
Sales	
— the largest customer	5%
— five largest customers combined	11%

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS

The directors during the year and up to the date of this report are:

*	Mr. Yeung Ping Leung, Howard
*	Mr. Tang Yat Sun, Richard
+	Mr. Cheng Kwai Yin *(passed away on 4th May, 2006)*
	Dr. Sin Wai Kin
*	Mr. Cheng Ka On, Dominic
*	Mr. Yeung Bing Kwong, Kenneth
*	Ms. Fung Chung Yee, Caroline
+	Mr. Lau To Yee
+	Mr. Cheng Kar Shing, Peter
	Mr. Wong Wei Ping, Martin
+	Mr. Chan Chak Cheung, William
	Mr. Ho Hau Hay, Hamilton
	Mr. Sin Nga Yan, Benedict *(appointed on 4th July, 2006)*

* *Executive Directors*
\+ *Independent Non-executive Directors*

Brief biographical details of the directors are set out on pages 3 and 4.

In accordance with Article 116 of the Company's Articles of Association, Dr. Sin Wai Kin, Mr. Cheng Ka On, Dominic, Mr. Cheng Kar Shing, Peter and Mr. Wong Wei Ping, Martin shall retire by rotation at the forthcoming annual general meeting of the Company. Mr. Cheng Ka On, Dominic, Mr. Cheng Kar Shing, Peter and Mr. Wong Wei Ping, Martin, being eligible, have offered themselves for re-election. Dr. Sin Wai Kin has informed the board that he intends to retire and will not seek re-election.

In accordance with Article 99 of the Company's Articles of Association, Mr. Sin Nga Yan, Benedict shall retire at the forthcoming annual general meeting and, being eligible, has offered himself for re-election.

The independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings in accordance with the Articles of Association of the Company.

The Company confirms that it has received letters of confirmation of independence from all of the independent non-executive directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers that the independent non-executive directors are independent.

DIRECTORS (Continued)

The Company has entered into a consultation service agreement with Verbal Company Limited ("Verbal"), whereby Verbal provides the services of Mr. Yeung Ping Leung, Howard to the Group for the year ended 31st March, 2006 at fees totalling HK$2,500,000. Mr. Yeung Ping Leung, Howard and Mr. Tang Yat Sun, Richard are directors of Verbal and Mr. Yeung Ping Leung, Howard has a beneficial interest in Verbal. Save as aforesaid, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS

At 31st March, 2006, the interests of the directors and chief executive of the Company in the share capital of the Company as recorded in the register maintained by the Company under section 352 of Part XV of the Securities and Futures Ordinance (the "SFO") or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Number of ordinary shares held				Percentage of
	Personal	Family	Corporate	Total	shareholding
Mr. Tang Yat Sun, Richard	3,585,000	Nil	Nil	3,585,000	0.82%
Mr. Cheng Kwai Yin	2,224,000	Nil	Nil	2,224,000	0.51%
Dr. Sin Wai Kin	1,792,500	Nil	Nil	1,792,500	0.41%
Mr. Cheng Ka On, Dominic	4,020,000	15,000	Nil	4,035,000	0.93%
Mr. Ho Hau Hay, Hamilton	Nil	Nil	*3,170,000	3,170,000	0.73%

* These shares are held by Tak Hung (Holding) Co. Ltd. ("Tak Hung") in which Mr. Ho has a 40% interest. Accordingly, Mr. Ho is deemed to be interested in all these shares held by Tak Hung.

Save as disclosed above, as at 31st March, 2006, none of the directors or chief executive of the Company had any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Save as disclosed below, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year:

1. (a) The Group entered into six tenancy agreements (the "King Fook Leases") on normal commercial terms with Stanwick Properties Limited (a wholly owned subsidiary of Yeung Chi Shing Estates Limited, a substantial shareholder of the Company) on 13th August, 2005 in respect of premises in King Fook Building, Hong Kong. The leased properties are used as the key retail outlet and the headquarters of the Group.

DIRECTORS' INTERESTS (Continued)

Major terms of the King Fook Leases are as follows:

Basement, Ground Floor and Mezzanine Floor, King Fook Building

Tenant	**Term**	**Rent per month**
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK$411,520

3rd Floor, King Fook Building

Tenant	**Term**	**Rent per month**
the Company	2 years from 16/8/05 to 15/8/07	HK$21,636

5th Floor, King Fook Building

Tenant	**Term**	**Rent per month**
the Company	2 years from 16/8/05 to 15/8/07	HK$21,636

8th Floor, King Fook Building

Tenant	**Term**	**Rent per month**
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK$21,636

9th Floor, King Fook Building

Tenant	**Term**	**Rent per month**
the Company	2 years from 16/8/05 to 15/8/07	HK$21,636

10th Floor, King Fook Building

Tenant	**Term**	**Rent per month**
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK$21,636

(b) The Company has also entered into a licence agreement (the "Licence Agreement") with Yeung Chi Shing Estates Limited pursuant to which the Company was granted an exclusive right for the design, manufacture and distribution of gold and jewellery products under the trademark of "King Fook" on a worldwide basis for a total consideration of HK$1. The contract commenced from 7th December, 1998 and does not fix the termination date.

Mr. Yeung Ping Leung, Howard and Mr. Yeung Bing Kwong, Kenneth, directors of the Company, together with other members of their family control the management of Yeung Chi Shing Estates Limited.

2. (a) King Fook Jewellery Group Limited (a wholly owned subsidiary of the Company) entered into a tenancy agreement (the "First Miramar Lease") with Contender Limited (a wholly owned subsidiary of Miramar Hotel and Investment Company, Limited, a substantial shareholder of the Company) on 28th April, 2004 on normal commercial terms pursuant to an offer letter dated 15th July, 2003 in respect of shop units G1-2 and G1A on the ground floor and shop units AR201-02 and AR217 on the first floor of Hotel Miramar Shopping Arcade, Kowloon, Hong Kong. The leased shops are the key retail outlets of the Group.

DIRECTORS' INTERESTS (Continued)

Mr. Tang Yat Sun, Richard, Dr. Sin Wai Kin and Mr. Cheng Ka On, Dominic are directors and shareholders of Miramar Hotel and Investment Company, Limited. Mr. Yeung Ping Leung, Howard is a director of Miramar Hotel and Investment Company, Limited.

Major terms of the First Miramar Lease are as follows:

Term	Rent per month
3 years from 16/7/03 to 15/7/06	HK$897,290

(b) Pursuant to an offer letter dated 27th March, 2006, Top Angel Limited (a wholly owned subsidiary of the Company) and Contender Limited agreed to enter into a tenancy agreement (the "Second Miramar Lease") on normal commercial terms relating to shops 1B1 and 1B2, 1st Basement Level, Hotel Miramar Shopping Arcade, Kowloon, Hong Kong. The leased shops will be used as a deluxe style fashion outlet to expand the Group's business activities.

Major terms of the Second Miramar Lease will be as follows:

Term	Rent per month
3 years from 9/6/06 to 8/6/09	HK$473,430

The above transactions (except the Licence Agreement) constituted continuing connected transactions not exempt under rule 14A.33 of the Listing Rules. Details of these transactions and other related party transactions are set out in note 38 to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions under the King Fook Leases, the First Miramar Lease and the Second Miramar Lease pursuant to rule 14A.37 of the Listing Rules and confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;
(2) on normal commercial terms; and
(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the continuing connected transactions under the King Fook Leases, the First Miramar Lease and the Second Miramar Lease pursuant to rule 14A.38 of the Listing Rules and advised the board of directors in writing with a copy provided to the Stock Exchange that the transactions:

(1) have received the approval of the board of directors of the Company;
(2) have been entered into in accordance with the relevant agreements governing the transactions; and
(3) have not exceeded the caps disclosed in previous announcements.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to rule 8.10(2) of the Listing Rules:

Mr. Cheng Kar Shing, Peter, an independent non-executive director of the Company, is a director of Chow Tai Fook Jewellery Co. Ltd. ("Chow Tai Fook"). The gold ornament, jewellery and watch retailing business of Chow Tai Fook may compete with similar business of the Group.

Dr. Sin Wai Kin is the chairman of Myer Jewelry Manufacturer Limited. The trading of fine and costume jewellery business of Myer Jewelry Manufacturer Limited and its subsidiaries ("Myer Group") may compete with similar business of the Group.

Mr. Sin Nga Yan, Benedict is a director and general manager of Myer Jewelry Manufacturer Limited. The trading of fine and costume jewellery business of Myer Group may compete with similar business of the Group.

Mr. Tang Yat Sun, Richard is a director of Hang Seng Bank Limited ("Hang Seng"). The bullion trading, securities broking and money exchange business of Hang Seng may compete with similar business of the Group.

The Group has experienced senior management independent of the above-named directors to conduct its business and is therefore capable of carrying on its business independently of and at arm's length from the respective businesses of Chow Tai Fook, Myer Group and Hang Seng.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, overdrafts and other borrowings of the Group are set out under current liabilities on the consolidated balance sheet and in note 29 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2006, the following persons (other than a director or chief executive of the Company) had interests in the share capital of the Company as recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Number of ordinary shares held	Nature of interest	Percentage of shareholding
Yeung Chi Shing Estates Limited	193,145,055	*Note (a)*	44.39%
Miramar Hotel and Investment Company, Limited	59,416,000	*Note (b)*	13.66%
Miramar Hotel and Investment (Express) Limited	22,790,000	Beneficial owner	5.24%

Notes:

(a) 186,985,035 shares are beneficially owned by Yeung Chi Shing Estates Limited while 6,160,020 shares are of its corporate interest.

(b) 28,122,000 shares are beneficially owned by Miramar Hotel and Investment Company, Limited while 31,294,000 shares are of its corporate interest.

Save as disclosed above, as at 31st March, 2006, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

SHARE OPTION SCHEME

On 27th August, 2004, the Company adopted a share option scheme (the "Scheme") for the purpose of attracting and retaining quality personnel and other persons who may contribute to the business and operation of the Group. Options may be granted without any initial payment to persons including directors, employees or consultants of the Group. Presently the maximum number of shares issuable under the Scheme is 43,507,165 shares (being 10% of the issued share capital of the Company at 27th August, 2004). The maximum number of shares in respect of which options may be granted to any one person in any 12-month period is 1% of the issued share capital of the Company on the last date of such 12-month period unless with shareholders' approval. The option period shall be not more than 10 years from the date of grant of an option, and may include a minimum period an option must be held before it can be exercised. The exercise price is the highest of (i) the nominal value of one share of the Company; (ii) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the grant of the option. The Scheme will remain in force until 26th August, 2014. The Company has not granted any option under the Scheme since its adoption.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of directors and senior management paid by the Group for the year ended 31st March, 2006 are set out in notes 13 and 14 to the financial statements respectively.

PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of its directors, not less than 25% of the issued share capital of the Company are held by the public.

AUDITORS

At the annual general meeting of the Company held on 12th September, 2005, PricewaterhouseCoopers, the then auditors of the Company, did not seek re-appointment and Grant Thornton were appointed as auditors of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Grant Thornton as auditors of the Company.

On behalf of the Board

Yeung Ping Leung, Howard
Chairman

Hong Kong, 4th July, 2006

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard corporate governance practices. It met all the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") in the year ended 31st March, 2006 except the following :

(a) the non-executive directors were not appointed for a specific term but are subject to retirement by rotation and re-election at annual general meetings of the Company in accordance with the Articles of Association of the Company; and
(b) the Articles of Association of the Company do not require the directors of the Company to retire by rotation every 3 years.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules as a code of conduct regarding its directors' securities transactions.

Having made specific enquiry of all directors of the Company, they have confirmed compliance with the required standard set out in the Model Code regarding directors' securities transactions during the year ended 31st March, 2006.

BOARD OF DIRECTORS

The Company is governed by a board of directors (the "Board") which has the responsibility for leadership and control of the Company. The directors are collectively responsible for promoting the success of the Company and its subsidiaries (the "Group") by directing and supervising the Group's affairs. The Board sets strategies and directions for the Group's activities with a view to develop the Group's business and to enhance shareholders' value.

The Board met 4 times in the year ended 31st March, 2006. All directors are given the opportunity to put items on the agenda for regular Board meetings. All directors have access to the Company Secretary to ensure that all Board procedures and rules and regulations are followed. Full minutes of Board meetings are kept by the Company Secretary and are available for inspection on reasonable notice. Any director may, in furtherance of his/her duties, take independent professional advice where necessary at the expense of the Company.

During the year, the Board has at all times complied with the Rules 3.10(1) and (2) of the Listing Rules relating to the appointment of at least three independent non-executive directors and one of the independent non-executive directors has appropriate professional qualifications or accounting or related financial management expertise. Each of the independent non-executive directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines.

BOARD OF DIRECTORS (Continued)

The Board's composition and the attendance of individual directors at the Board meetings was as follows:

Name	Number of meetings attended
Executive directors	
Mr. Yeung Ping Leung, Howard *(Chairman)*	4/4
Mr. Tang Yat Sun, Richard *(Vice Chairman)*	4/4
Mr. Cheng Ka On, Dominic	3/4
Mr. Yeung Bing Kwong, Kenneth	1/4
Ms. Fung Chung Yee, Caroline	4/4
Non-executive directors	
Dr. Sin Wai Kin	1/4
Mr. Wong Wei Ping, Martin	4/4
Mr. Ho Hau Hay, Hamilton	3/4
Mr. Sin Nga Yan, Benedict *(appointed on 4th July, 2006)*	0/0
Independent non-executive directors	
Mr. Cheng Kwai Yin *(passed away on 4th May, 2006)*	3/4
Mr. Lau To Yee	4/4
Mr. Cheng Kar Shing, Peter	2/4
Mr. Chan Chak Cheung, William	4/4

Messrs. Yeung Ping Leung, Howard and Yeung Bing Kwong, Kenneth are brothers and Mr. Wong Wei Ping, Martin is their brother-in-law. Mr. Sin Nga Yan, Benedict is the son of Dr. Sin Wai Kin.

Details of the directors are disclosed in the section headed "Brief Biographical Details of the Directors" on pages 3 and 4.

CHAIRMAN AND GROUP GENERAL MANAGER (CHIEF EXECUTIVE OFFICER)

The roles of the Chairman and the Group General Manager (Chief Executive Officer) of the Company are separated, with a clear division of responsibilities.

Mr. Yeung Ping Leung, Howard is the Chairman of the Company. He is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting agenda of the Board meetings and taking into account any matters proposed by other directors for inclusion in the agenda. Through the Board, he is responsible for ensuring that good corporate governance practices and procedures are followed by the Group. He is also responsible for the strategic planning of the Company.

Ms. Wong Ka Ki, Kay is the Group General Manager of the Company responsible for the day-to-day management of the Group's business and for the growth and diversification thereof to accomplish the vision of the Company. She also monitors achievement of the Group's operational and financial results.

NON-EXECUTIVE DIRECTORS

All the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election at the Company's annual general meetings in accordance with the Articles of Association of the Company.

REMUNERATION OF DIRECTORS

The Remuneration Committee was established on 19th May, 2005, comprising 3 members, namely, Mr. Chan Chak Cheung, William and Mr. Cheng Kar Shing, Peter (independent non-executive directors) and Ms. Fung Chung Yee, Caroline (an executive director). This Committee is chaired by Mr. Chan Chak Cheung, William. The terms of reference of the Remuneration Committee have been determined with reference to the Code.

The Remuneration Committee met 4 times during the year. The attendance of individual members at these meetings was as follows:

Name	Number of meetings attended
Mr. Chan Chak Cheung, William	4/4
Mr. Cheng Kar Shing, Peter	4/4
Ms. Fung Chung Yee, Caroline	4/4

The Remuneration Committee has reviewed and approved the Group's remuneration policy and the levels of remuneration paid to the senior management of the Group. The Remuneration Committee oversees that factors such as the performance of the senior management, the profitability of the Group, salaries paid by comparable companies and time commitment and responsibilities of the senior management have been considered in determining remuneration for the senior management of the Group. The Remuneration Committee has to ensure that the Group is able to attract, retain and motivate a high-calibre team which is essential to the success of the Group.

NOMINATION OF DIRECTORS

Executive directors identify potential new directors and recommend to the Board for decision. A director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment. Under the Company's Articles of Association, directors are not required to retire by rotation every 3 years, but they have voluntarily agreed to do so. The Board has proposed to amend the Articles of Association of the Company in the forthcoming annual general meeting to the effect that all directors of the Company shall be subject to retirement by rotation at least once every three years.

Potential new directors are selected on the basis of their qualifications, skills and experience which the directors consider will make a positive contribution to the performance of the Board.

During the year, no new director was appointed. Mr. Sin Nga Yan, Benedict was appointed as a non-executive director of the Company on 4th July, 2006.

ACCOUNTABILITY AND AUDIT

The directors acknowledge their responsibility for preparing the financial statements of the Company. As at 31st March, 2006, the directors are not aware of any material uncertainties relating to events or conditions which may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the directors have prepared the financial statements of the Company on a going-concern basis.

The responsibilities of the auditors about their financial reporting are set out in the Auditors' Report attached to the Company's Financial Statements for the year ended 31st March, 2006.

The Board has appointed Grant Thornton to conduct a review of the effectiveness of the Group's internal control system covering all controls, including financial, operational and compliance and risk management controls and the result will be reported to the Audit Committee upon completion of the review in due course. Areas for improvement will be identified and appropriate measures will be taken accordingly. The Group has recently set up an internal audit department to strengthen the Group's internal control system.

AUDITORS' REMUNERATION

During the year ended 31st March, 2006, remuneration paid and payable to the auditors for audit services amounted to HK$810,000. For non-audit services, remuneration paid to the auditors amounted to HK$109,000, breakdown of which is as follows:

	HK$
Taxation services	89,000
Other professional services	20,000
	109,000

In March, 2006, King Fook Securities Company Limited, a wholly owned subsidiary of the Company, appointed Grant Thornton as the investigating accountants in respect of a former director's misappropriation of clients' securities. However, the appointment of Grant Thornton will be replaced as agreed with the insurers. The fees payable to Grant Thornton are yet to be agreed.

AUDIT COMMITTEE

The Audit Committee had 3 members, comprising Messrs. Cheng Kwai Yin and Chan Chak Cheung, William (independent non-executive directors) and Mr. Wong Wei Ping, Martin (a non-executive director) during the year. The Chairman of this Committee is Mr. Chan Chak Cheung, William. As Mr. Cheng Kwai Yin passed away on 4th May, 2006, Mr. Lau To Yee was appointed on 2nd June, 2006 to take his place.

The terms of reference of the Audit Committee follow the guidelines set out in the Code.

AUDIT COMMITTEE (Continued)

The primary duties of the Audit Committee include the review of the Group's interim and annual financial reports, the nature and scope of audit review as well as the system of internal control. The Audit Committee is also responsible for making recommendation in relation to the appointment, reappointment and removal of the auditors, and reviews and monitors the auditors' independence and objectivity. In addition, the Audit Committee discusses matters raised by the auditors to ensure that appropriate recommendations are implemented.

During the year, the Audit Committee had reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the review of the Company's interim and annual financial statements before submission to the Board. The Group's financial statements for the year ended 31st March, 2006 have been reviewed by the Audit Committee, which is of the opinion that such statements comply with applicable accounting standards and legal requirements, and that adequate disclosures have been made.

The Audit Committee met 4 times during the year. The attendance of individual members at these meetings was as follows :

Name	**Number of meetings attended**
Mr. Cheng Kwai Yin *(passed away on 4th May, 2006)*	3/4
Mr. Chan Chak Cheung, William	4/4
Mr. Wong Wei Ping, Martin	4/4
Mr. Lau To Yee *(appointed on 2nd June, 2006)*	0/0

COMMUNICATIONS WITH SHAREHOLDERS

The Board endeavours to maintain an on-going dialogue with shareholders and, in particular, through annual general meetings or other general meetings to communicate with shareholders and encourage their participation. Shareholders of the Company are entitled to attend shareholders' meeting in person or by proxy. The Company will inform the shareholders at all general meetings of the procedures for demanding a poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the Articles of Association.

Auditors' Report

Certified Public Accountants
Member of Grant Thornton International

Grant Thornton
均富會計師行

TO THE MEMBERS OF
KING FOOK HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

We have audited the financial statements on pages 22 to 73 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The Hong Kong Companies Ordinance requires the directors to prepare financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Basis of opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31st March, 2006 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Grant Thornton
Certified Public Accountants

Hong Kong, 4th July, 2006

Consolidated Income Statement

For the year ended 31st March, 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
Revenue	4	798,912	679,320
Cost of sales		(622,900)	(515,688)
Gross profit		176,012	163,632
Other operating income		33,297	12,574
Distribution and selling costs		(102,698)	(101,796)
Administrative expenses		(57,251)	(46,430)
Other operating expenses		(17,686)	(3,793)
Operating profit		31,674	24,187
Finance costs	6	(9,685)	(3,313)
Share of profit of jointly controlled entities		14	110
Profit before taxation	7	22,003	20,984
Taxation	8	(3,928)	(449)
Profit for the year		18,075	20,535
Attributable to:			
Shareholders of the Company	9	17,947	20,562
Minority interests		128	(27)
Profit for the year		18,075	20,535
Dividends	10	5,439	5,221
Earnings per share for profit attributable to the shareholders of the Company during the year	11		
— Basic (HK cents)		4.1 cents	4.7 cents

Consolidated Balance Sheet

As at 31st March, 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*15*	**17,768**	21,378
Leasehold interests in land	*16*	**5,980**	6,114
Investment properties	*17*	**1,134**	—
Interests in jointly controlled entities	*19*	**4,940**	4,884
Available-for-sale investments	*20*	**112,203**	65,830
Other assets	*21*	**2,203**	2,105
Goodwill	*22*	**—**	—
		144,228	100,311
Current assets			
Inventories	*23*	**575,613**	549,219
Debtors, deposits and prepayments	*24*	**83,522**	60,141
Investments at fair value through profit or loss	*25*	**9,271**	15,453
Tax recoverable		**—**	445
Cash and cash equivalents	*26*	**50,355**	34,418
		718,761	659,676
Current liabilities			
Creditors, accruals and provision	*27*	**78,683**	48,156
Taxation payable		**852**	—
Gold loans, unsecured	*28*	**25,006**	11,185
Bank loans and overdrafts, unsecured	*29*	**83,000**	62,236
		187,541	121,577
Net current assets		**531,220**	538,099
Total assets less current liabilities		**675,448**	638,410
Non-current liabilities			
Bank loans, unsecured	*29*	**98,000**	120,000
Provision for long service payments	*30*	**432**	607
		98,432	120,607
Net assets		**577,016**	517,803

Consolidated Balance Sheet (Continued)

As at 31st March, 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CAPITAL AND RESERVES			
Capital and reserves attributable to the shareholders of the Company			
Share capital	*31*	**108,768**	108,768
Other reserves	*32(a)*	**147,470**	101,053
Retained profits	*32(a)*		
Proposed final dividend		**3,481**	3,481
Others		**316,687**	304,179
		576,406	517,481
Minority interests		**610**	322
		577,016	517,803

Yeung Ping Leung, Howard
Chairman

Tang Yat Sun, Richard
Vice Chairman

Balance Sheet

As at 31st March, 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	15	4,263	5,059
Leasehold interest in land	16	678	679
Investment property	17	467	—
Interests in subsidiaries	18	122,784	483,879
		128,192	489,617
Current assets			
Debtors, deposits and prepayments	24	6,850	6,933
Amounts due from subsidiaries	18	566,195	—
Cash and cash equivalents	26	19,509	937
		592,554	7,870
Current liabilities			
Creditors, accruals and provision	27	5,284	4,664
Amounts due to subsidiaries	18	194,050	—
Gold loans, unsecured	28	25,006	11,184
Bank loans and overdrafts, unsecured	29	83,000	59,000
		307,340	74,848
Net current assets/(liabilities)		285,214	(66,978)
Total assets less current liabilities		413,406	422,639
Non-current liabilities			
Bank loans, unsecured	29	98,000	120,000
Provision for long service payments	30	153	198
		98,153	120,198
Net assets		315,253	302,441

Balance Sheet (Continued)

As at 31st March, 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CAPITAL AND RESERVES			
Capital and reserves attributable to the shareholders of the Company			
Share capital	31	**108,768**	108,768
Other reserves	32(b)	**17,575**	17,575
Retained profits	32(b)		
Proposed final dividend		**3,481**	3,481
Others		**185,429**	172,617
		315,253	302,441

Yeung Ping Leung, Howard
Chairman

Tang Yat Sun, Richard
Vice Chairman

Consolidated Statement of Changes in Equity

For the year ended 31st March, 2006

	Attributable to the shareholders of the Company								
	Share capital HK$'000	Share premium HK$'000	Capital reserve on consolidation HK$'000	Exchange reserve HK$'000	Investment revaluation reserve HK$'000	Retained profits HK$'000	Total HK$'000	Minority interests HK$'000	Total HK$'000
At 1st April, 2004, as previously reported as equity	108,768	17,575	24,753	76	49,446	291,013	491,631	—	491,631
At 1st April, 2004, as previously reported as minority interests	—	—	—	—	—	—	—	349	349
At 1st April, 2004, as restated	108,768	17,575	24,753	76	49,446	291,013	491,631	349	491,980
Change in fair value of non-trading investments (now redesignated as available-for-sale investments)	—	—	—	—	10,503	—	10,503	—	10,503
Realisation of fair value change of non-trading investments on disposal (now redesignated as available-for-sale investments)	—	—	—	—	(1,306)	—	(1,306)	—	(1,306)
Exchange translation differences	—	—	—	6	—	—	6	—	6
Net income/(expense) recognised directly in equity	—	—	—	6	9,197	—	9,203	—	9,203
Profit/(loss) for the year	—	—	—	—	—	20,562	20,562	(27)	20,535
Total recognised income and expense for the year	—	—	—	6	9,197	20,562	29,765	(27)	29,738
Dividends	—	—	—	—	—	(3,915)	(3,915)	—	(3,915)
At 31st March, 2005	108,768	17,575	24,753	82	58,643	307,660	517,481	322	517,803
Representing:									
Proposed final dividend						3,481			
Others						304,179			
Retained profits as at 31st March, 2005						307,660			

Consolidated Statement of Changes in Equity (Continued)

For the year ended 31st March, 2006

	Attributable to the shareholders of the Company								
	Share capital	**Share premium**	**Capital reserve on consolidation**	**Exchange reserve**	**Investment revaluation reserve**	**Retained profits**	**Total**	**Minority interests**	**Total**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1st April, 2005	108,768	17,575	24,753	82	58,643	307,660	517,481	322	517,803
Change in fair value of available-for-sale investments	—	—	—	—	53,024	—	53,024	—	53,024
Realisation of fair value change of available-for-sale investments on disposal	—	—	—	—	(6,651)	—	(6,651)	—	(6,651)
Exchange translation differences	—	—	—	44	—	—	44	160	204
Net income/(expense) recognised directly in equity	—	—	—	44	46,373	—	46,417	160	46,577
Profit for the year	—	—	—	—	—	17,947	17,947	128	18,075
Total recognised income and expense for the year	—	—	—	44	46,373	17,947	64,364	288	64,652
Dividends	—	—	—	—	—	(5,439)	(5,439)	—	(5,439)
At 31st March, 2006	**108,768**	**17,575**	**24,753**	**126**	**105,016**	**320,168**	**576,406**	**610**	**577,016**
Representing:									
Proposed final dividend						3,481			
Others						316,687			
Retained profits as at 31st March, 2006						**320,168**			

Consolidated Cash Flow Statement

For the year ended 31st March, 2006

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash generated from/(used in) operations	*33(a)*	18,433	(22,500)
Interest received		468	342
Hong Kong profits tax paid		(2,706)	(883)
Hong Kong profits tax refunded		85	195
Overseas tax paid		(10)	(28)
Net cash generated from/(used in) operating activities		16,270	(22,874)
CASH FLOWS FROM INVESTING ACTIVITIES			
Increase in other assets		(98)	—
Acquisitions of subsidiaries, net of cash acquired	*33(b)*	(81)	—
Proceeds from sale of investments at fair value through profit or loss#		—	15,841
Proceeds from sale of available-for-sale investments*		13,082	3,682
Proceeds from disposal of property, plant and equipment		—	21
Dividends received from investments at fair value through profit or loss#/available-for-sale investments*		3,083	1,544
Dividends received from a jointly controlled entity		75	76
Purchase of investments at fair value through profit or loss#		—	(15,248)
Purchase of property, plant and equipment		(7,286)	(8,631)
Purchase of available-for-sale investments*		—	(3,069)
Net cash generated from/(used in) investing activities		8,775	(5,784)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of loan due to a director		—	(15,000)
Interest paid		(9,685)	(3,313)
New bank loans		68,252	1,159,187
Repayment of bank loans		(61,687)	(1,109,187)
Dividends paid		(5,439)	(3,915)
Net cash (used in)/generated from financing activities		(8,559)	27,772
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		16,486	(886)
Cash and cash equivalents at the beginning of the year		33,869	34,755
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR		50,355	33,869
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Bank balances and cash		50,355	34,418
Bank overdrafts		—	(549)
		50,355	33,869

* *formerly known as non-trading investments*

\# *formerly known as trading investments*

Notes to the Financial Statements

For the year ended 31st March, 2006

1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is located at 9th Floor, King Fook Building, 30–32 Des Voeux Road Central, Hong Kong and its principal place of business is in Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The principal activity of the Company is investment holding. Details of principal activities of its subsidiaries are set out in note 18 to the financial statements.

The financial statements for the year ended 31st March, 2006 were approved by the board of directors on 4th July, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 22 to 73 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Hong Kong Companies Ordinance and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are recognised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities. 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 these financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2.2 Adoption of new or revised HKFRS

From 1st April, 2005, the Group has adopted the new or revised standards and interpretations of HKFRS, which are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2005 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31st March, 2005.

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

2.2.1 *Adoption of HKAS 1*

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now presented as a separate line within capital and reserves. Profit and loss attributable to minority interests and that attributable to the shareholders of the Company are now presented as an allocation of the profit for the year.

2.2.2 *Adoption of HKAS 17*

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and building elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and building elements can be made reliably, prepaid land lease payments under operating leases are reclassified as leasehold interests in land, which are carried at cost and subsequently expensed in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.3 *Adoption of HKAS 31*

In previous years, the interest in a jointly controlled entity was accounted for using the equity method. In the current year, the Group has applied HKAS 31 "Interests in Joint Ventures" which allows an entity to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue to apply the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interest in jointly controlled entities. This change has no effect on the Group's retained profits at 1st April, 2005.

2.2.4 *Adoption of HKAS 32 and HKAS 39*

Prior to the adoption of HKAS 39, trading investments and non-trading investments were measured at fair value. Changes in fair value of trading investments were recognised in the income statement as they arose. For non-trading investments, changes in fair value were dealt with in the investment revaluation reserve until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in the investment revaluation reserve was included in the income statement for that period.

On the adoption of HKAS 39, the Group has redesignated "Trading investments" and "Non-trading investments" as "Investments at fair value through profit or loss" and "Available-for-sale investments" respectively.

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

2.2.5 *Adoption of HKAS 36 and HKFRS 3*

In previous years, goodwill was capitalised and amortised on the straight-line basis over its estimated useful life and subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1st April, 2005 and the accumulated amortisation at 31st March, 2005 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash-generating units.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.5 *Adoption of HKAS 36 and HKFRS 3* (Continued)

In respect of goodwill previously eliminated against or credited to reserves, HKFRS 3 does not require entities to recognise that goodwill in income statement when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. Moreover, the Group is not required nor permitted to restate goodwill previously eliminated against reserves. Goodwill previously recognised in reserves as at 1st April, 2005 continues to be held in reserves and will be transferred to retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

On adoption of HKFRS 3, all accumulated amortisation and impairment losses were eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1st April, 2005.

2.2.6 *Other standards adopted*

The adoption of HKAS 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37 and 40 did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2.2.7 The effect of changes in the accounting policies on the consolidated income statement on adoption of HKAS 17 which takes effect retrospectively is summarised below:

	HKAS 17 HK$'000
Year ended 31st March, 2005	
Increase in amortisation of leasehold interests in land	134
Decrease in depreciation	(134)
Total increase/(decrease) in profit	—
Increase/(decrease) in basic earnings per share (HK cents)	—
Year ended 31st March, 2006	
Increase in amortisation of leasehold interests in land	**134**
Decrease in depreciation	**(134)**
Total increase/(decrease) in profit	**—**
Increase/(decrease) in basic earnings per share (HK cents)	**—**

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.8 The effect of changes in the accounting policies on the consolidated balance sheet on adoption of HKAS 17 and 39 is summarised below:

	HKAS 17#	**HKAS 39***	**Total**
	HK$'000	HK$'000	HK$'000
At 31st March, 2005			
Increase/(decrease) in assets			
Property, plant and equipment	(6,114)	—	(6,114)
Leasehold interests in land	6,114	—	6,114
At 1st April, 2005			
Increase/(decrease) in assets			
Property, plant and equipment	(6,114)	—	(6,114)
Leasehold interests in land	6,114	—	6,114
Trading investments	—	(15,453)	(15,453)
Investments at fair value through profit or loss	—	15,453	15,453
Non-trading investments	—	(65,830)	(65,830)
Available-for-sale investments	—	65,830	65,830
At 31st March, 2006			
Increase/(decrease) in assets			
Property, plant and equipment	**(5,980)**	—	**(5,980)**
Leasehold interests in land	**5,980**	—	**5,980**

adjustments which take effect retrospectively

* adjustments which take effect prospectively from 1st April, 2005

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.9 *New standards or interpretations that have been issued but are not yet effective*

The Group has not adopted early the following standards or interpretations relevant to its operations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures[1]
HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures[2]
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation[2]
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions[2]
HKAS 39 (Amendment)	The Fair Value Option[2]
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts[2]
HKFRS 7	Financial Instruments — Disclosures[1]
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease[2]

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

2 Effective for annual periods beginning on or after 1st January, 2006

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to the shareholders that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and shareholders of the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Subsidiaries

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of 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 revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's balance sheet, subsidiaries are carried at cost less any provision for 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.

2.5 Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other 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.

The Group's share of post-acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity (including any other unsecured receivables), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

The Company's investment in a jointly controlled entity is stated at cost less any provision for impairment losses. The results of the jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

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

In the separate 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. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

In the consolidated financial statements, all separate financial statements of subsidiaries and jointly controlled entities originally presented in a currency different from the Group's functional currency, have been converted into Hong Kong Dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange fluctuation reserve in capital and reserves. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong Dollars at the closing rates.

2.7 Income and expense recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after elimination of sales within the Group.

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 and on the following bases:

(i) *Sale of goods*

Income from gold ornament, jewellery, watch and gift retailing, diamond wholesaling and bullion trading is recognised upon delivery of goods to customers.

(ii) *Commission income*

Commission income from securities broking and money exchange is recognised when services are rendered.

(iii) *Dividend income*

Dividend income from investments is recognised when the right to receive payment is established.

(iv) *Rental income*

Rental income is recognised on a straight-line basis over the period of each lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Income and expense recognition (Continued)

(v) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating expenses are recognised in the income statement upon utilisation of the services.

2.8 Borrowing costs

All borrowing costs are expensed as incurred.

2.9 Goodwill

Goodwill arising on acquisition of subsidiaries for which the agreement date is before 1st April, 2005 represents the excess of the cost of an acquisition over the Group's interest in the fair value of identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. The Group has discontinued amortisation from 1st April, 2005 onwards and such goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill arising on acquisition prior to 1st April, 2001 continues to be held in reserves and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which goodwill relates becomes impaired.

2.10 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

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 repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives, at the following rates per annum:

Buildings	2%–2.5%
Leasehold improvement	15% or over the remaining period of the lease, whichever is shorter
Plant and machinery, furniture and equipment	15%
Motor vehicles	15%

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

2.11 Investment property

Investment properties are interests in land and buildings held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is provided so as to write off the cost of the investment property using the straight-line method over the expected useful life to the Group.

2.12 Leasehold interests in land

Leasehold interests in land represent up-front payments to acquire long term interests for the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight-line basis, net of any provision for impairment losses.

2.13 Impairment of assets

Goodwill, property, plant and equipment, leasehold interests in land, investment properties, interests in subsidiaries and jointly controlled entities are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). 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 management controls the related cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of assets (Continued)

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit'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 based on an internal discounted cash flow evaluation. 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.

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 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.

2.14 Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial assets

In previous years, the Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as non-trading investments and trading investments.

Non-trading investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement. Where there is objective evidence that individual investments were impaired, the cumulative loss recorded in the revaluation reserve was taken to the income statement.

Trading investments were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments were recognised in the income statement. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statements as they arose.

From 1st April, 2005 onwards, the Group classified its financial assets into debtors, deposits and prepayments, investments at fair value through profit or loss, available-for-sale investments and cash and cash equivalents. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the financial assets were acquired. The designation of financial assets is reclassified at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised on their 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. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Investments at fair value through profit or loss include financial assets that are either held for trading or are designated by the entity to be carried at fair value through profit or loss on initial recognition. 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. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial assets (Continued)

Available-for-sale investments are subsequently measured at fair value, with changes in value recognised in equity. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement. When a decline in fair value of an available-for-sale investments has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

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 initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value is recognised in the income statement.

A provision for impairment of loans and receivables are provided when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

2.16 Inventories

Inventories, other than gold stocks, are stated at the lower of cost and estimated net realisable value. Cost is determined on an actual cost basis. Net realisable value is determined by reference to management estimates based on prevailing market conditions.

Gold stocks are stated at fair value less cost to sell. Changes in fair value are recognised in the income statement in the period of the change.

2.17 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, tax authorities relating to the current or prior reporting periods, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the tax 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 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Accounting for income taxes (Continued)

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 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.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, short-term bank deposits.

2.19 Share capital

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

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incidental costs directly attributable to the equity transaction.

2.20 Employee benefits

(i) ***Employee leave entitlements***

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.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

2.20 Employee benefits (Continued)

(ii) ***Pension obligations***

The Group operates a number of defined contribution retirement schemes in Hong Kong, the assets of which are held in separate trustee-administered funds. The retirement schemes are funded by payments from employees and the Group.

Contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

2.21 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, gold loans and creditors and accruals. They are included in balance sheet line items as "bank loans and overdrafts", "gold loans" and "creditors and accruals" under current liabilities and "bank loans" under non-current liabilities.

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 finance costs in the income statement.

Bank loans are recognised initially at fair value, net of transaction costs incurred. Bank loans 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 bank loans using the effective interest method.

On initial recognition, gold loans are designated as financial liabilities at fair value through profit or loss. Subsequent to initial recognition, gold loans are measured at fair value with changes in fair value recognised in the income statement. Financial liabilities originally designated as financial liabilities at fair value through profit or loss may not subsequently be reclassified.

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.

Creditors and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

2.22 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 an outflow of economic benefits 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.

2. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

2.22 Provisions and contingent liabilities (Continued)

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 future events 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.

2.23 Segment reporting

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

Unallocated results mainly represent dividend income from investments at fair value through profit or loss/available-for-sale investments and the gain or loss from investments at fair value through profit or loss/available-for-sale investments less corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories, receivables, operating cash and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as taxation, minority interests and corporate borrowings. Capital expenditure comprises additions to property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

2.24 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 a jointly-controlled entity;

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Related parties (Continued)

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

(v) 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 (iii) or (iv); or

(vi) 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.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates 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.

(i) Depreciation

The Group depreciates property, plant and equipment on a straight-line basis over the estimated useful lives of 7 to 50 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(ii) Impairment 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.

(iii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iv) **Net realisable value of inventories**

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

4. REVENUE

The Group is principally engaged in gold ornament, jewellery, watch and gift retailing, bullion trading, securities broking and diamond wholesaling. Revenue, which is also the Group's turnover, recognised during the year comprised the following:

	2006	2005
	HK$'000	HK$'000
Gold ornament, jewellery, watch and gift retailing	**697,620**	616,275
Bullion trading	**82,288**	36,928
Commission from securities broking	**6,805**	8,001
Diamond wholesaling	**12,199**	18,116
	798,912	679,320

5. SEGMENT INFORMATION

The Group is organised into two main business segments:

(i) Retailing, bullion trading and diamond wholesaling

(ii) Securities broking

There was no intersegment sale and transfer during the year (2005: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

5. **SEGMENT INFORMATION** (Continued)

(a) **Business segments**

	Retailing, bullion trading and diamond wholesaling 2006 HK$'000	Securities broking 2006 HK$'000	Group 2006 HK$'000
Segment revenue	792,107	6,805	798,912
Segment results	62,728	(1,643)	61,085
Unallocated results			(29,411)
Operating profit			31,674
Finance costs			(9,685)
Share of profit of jointly controlled entities	14		14
Profit before taxation			22,003
Taxation			(3,928)
Profit for the year			18,075
Segment assets	638,929	52,718	691,647
Investment in jointly controlled entities	4,940		4,940
Unallocated assets			166,402
Total assets			862,989
Segment liabilities	46,552	43,504	90,056
Unallocated liabilities			195,917
Total liabilities			285,973
Capital expenditure			
Additions of property, plant and equipment			
— segment	4,699	813	5,512
— unallocated			1,774
Depreciation			
— segment	8,071	585	8,656
— unallocated			1,309

5. **SEGMENT INFORMATION** (Continued)

(a) **Business segments** (Continued)

	Retailing, bullion trading and diamond wholesaling 2005 HK$'000 (Restated)	Securities broking 2005 HK$'000	Group 2005 HK$'000 (Restated)
Segment revenue	671,319	8,001	679,320
Segment results	52,100	2,643	54,743
Unallocated results			(30,556)
Operating profit			24,187
Finance costs			(3,313)
Share of profit of a jointly controlled entity	110		110
Profit before taxation			20,984
Taxation			(449)
Profit for the year			20,535
Segment assets	612,624	40,740	653,364
Investment in a jointly controlled entity	4,884		4,884
Unallocated assets			101,739
Total assets			759,987
Segment liabilities	35,051	17,457	52,508
Unallocated liabilities			189,676
Total liabilities			242,184
Capital expenditure			
Additions of property, plant and equipment			
— segment	6,195	585	6,780
— unallocated			1,851
Depreciation			
— segment	5,858	756	6,614
— unallocated			1,119
Amortisation of goodwill			414
Provision for impairment losses of goodwill			1,247

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

Over 90% of the Group's revenue, results, assets and liabilities are derived from activities in Hong Kong.

6. FINANCE COSTS

	2006 HK$'000	2005 HK$'000
Interest charge on:		
Bank loans and overdrafts repayable within five years	9,447	2,972
Gold loans repayable within five years	238	169
Loan from a director	—	172
	9,685	3,313

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging and crediting:

	2006 HK$'000	2005 HK$'000 (Restated)
Charging:		
Amortisation of goodwill	—	414
Amortisation of leasehold interests in land	134	134
Auditors' remuneration		
— Provision for the current year	843	1,124
Cost of inventories sold	620,927	515,037
Depreciation of property, plant and equipment	9,965	7,733
Depreciation of investment properties	35	—
Loss on disposal of property, plant and equipment	98	590
Provision for impairment losses of goodwill	—	1,247
Operating leases charges in respect of properties	44,059	41,002
Provision for impairment losses of debtors	23	1,522
Provision for and write down of inventories	1,086	268
Provision for loss resulting from misappropriation of clients' securities, net (note 27(b))	16,800	—
Crediting:		
Dividend income	3,083	1,544
Interest income	468	342
Fair value change of investments at fair value through profit or loss	5,345	4,388
Gain on disposal of available-for-sale investments	13,082	2,702
Rental income less outgoings		
— owned properties	1,187	563
— operating subleases	939	1,128

8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	2006 HK$'000	2005 HK$'000
Current tax		
— Hong Kong		
Tax for the year	3,921	420
(Over)/under provision in prior years	(3)	1
	3,918	421
— Overseas taxation	10	28
Total taxation charge	3,928	449

Reconciliation between tax expense and accounting profit at applicable tax rates is as follows:

	2006 HK$'000	2005 HK$'000
Profit before taxation	22,003	20,984
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions	3,881	3,389
Tax effect of non-taxable income	(3,327)	(586)
Tax effect of non-deductible expenses	3,546	715
Temporary differences not recognised	142	33
Tax losses not recognised	1,823	2,062
Utilisation of previously unrecognised tax losses	(2,428)	(5,165)
Others	291	1
Taxation charge	3,928	449

9. PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

Of the consolidated profit attributable to the shareholders of the Company of HK$17,947,000 (2005: HK$20,562,000), a profit of HK$18,251,000 (2005: HK$2,253,000) has been dealt with in the financial statements of the Company.

10. DIVIDENDS

	2006 HK$'000	2005 HK$'000
Interim dividend of HK0.45 cent per share (2005: HK0.4 cent)	1,958	1,740
Proposed final dividend of HK0.8 cent per share (2005: HK0.8 cent)	3,481	3,481
	5,439	5,221

At a meeting held on 9th December, 2005, the directors declared an interim dividend of HK0.45 cent per share for the year. The interim dividend was paid on 13th January, 2006 and was reflected as an appropriation of retained profits for the year.

At a meeting held on 4th July, 2006, the directors proposed a final dividend of HK0.8 cent per share for the year. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March, 2007.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the shareholders of the Company of HK$17,947,000 (2005: HK$20,562,000) and on 435,071,650 (2005: 435,071,650) ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31st March, 2006 was not presented as there was no potential dilutive effect (2005: Nil).

12. EMPLOYEE BENEFIT EXPENSE

	2006 HK$'000	2005 HK$'000
Wages, salaries and allowances	54,321	46,441
Pension costs — defined contribution retirement schemes*	2,647	2,554
	56,968	48,995

Employee benefit expense as shown above include directors' emoluments except fees.

* As permitted under the rules of the provident fund schemes, all forfeited contributions for the two years ended 31st March, 2005 and 2006 have been credited to the employers' balance in respect of the remaining members' accounts.

13. DIRECTORS' EMOLUMENTS

	Fees HK$'000	Salaries and allowances HK$'000	Bonuses HK$'000	Retirement benefit scheme contributions HK$'000	Total HK$'000
2006					
Executive directors					
Mr. Yeung Ping Leung, Howard	17	—	—	1	18
Mr. Tang Yat Sun, Richard	16	—	—	1	17
Mr. Cheng Ka On, Dominic	16	—	—	1	17
Mr. Yeung Bing Kwong, Kenneth	18	216	—	10	244
Ms. Fung Chung Yee, Caroline	14	556	200	31	801
Non-executive directors					
Dr. Sin Wai Kin	14	—	—	—	14
Mr. Wong Wei Ping, Martin	10	—	—	—	10
Mr. Ho Hau Hay, Hamilton	10	—	—	—	10
Independent non-executive directors					
Mr. Cheng Kwai Yin	10	—	—	—	10
Mr. Lau To Yee	10	—	—	—	10
Mr. Cheng Kar Shing, Peter	12	—	—	—	12
Mr. Chan Chak Cheung, William	10	240	—	—	250
	157	1,012	200	44	1,413
2005					
Executive directors					
Mr. Yeung Ping Leung, Howard	16	—	—	1	17
Mr. Tang Yat Sun, Richard	16	—	—	1	17
Mr. Cheng Ka On, Dominic	16	—	—	1	17
Mr. Yeung Bing Kwong, Kenneth	18	216	—	9	243
Ms. Fung Chung Yee, Caroline	14	540	120	26	700
Non-executive directors					
Dr. Sin Wai Kin	14	—	—	—	14
Mr. Wong Wei Ping, Martin	10	—	—	—	10
Mr. Ho Hau Hay, Hamilton	8	—	—	—	8
Dr. Ho Tim	6	—	—	—	6
Independent non-executive directors					
Mr. Cheng Kwai Yin	10	—	—	—	10
Mr. Lau To Yee	10	—	—	—	10
Mr. Cheng Kar Shing, Peter	12	—	—	—	12
Mr. Chan Chak Cheung, William	7	131	—	—	138
	157	887	120	38	1,202

13. **DIRECTORS' EMOLUMENTS** (Continued)

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 (2005: Nil).

None of the directors has waived or agreed to waive any emoluments in respect of the year ended 31st March, 2006 (2005: Nil).

14. **FIVE HIGHEST PAID INDIVIDUALS**

The five individuals whose emoluments were the highest in the Group for the year included one (2005: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2005: four) highest paid, non-director individuals during the year are as follows:

	2006	2005
	HK$'000	HK$'000
Salaries, allowances and benefits in kind	**3,059**	2,941
Bonuses	**330**	205
Pension costs — defined contribution retirement schemes	**161**	152
	3,550	3,298

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK$Nil–HK$1,000,000	**3**	4
HK$1,000,001–HK$1,500,000	**1**	—

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings HK$'000 (Restated)	Leasehold improvement HK$'000	Plant and machinery, furniture and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
At 1st April, 2004					
Cost	5,650	27,409	23,087	598	56,744
Accumulated depreciation	(2,215)	(15,578)	(17,368)	(492)	(35,653)
Net book amount	3,435	11,831	5,719	106	21,091
Net book amount					
At 1st April, 2004	3,435	11,831	5,719	106	21,091
Additions	—	6,115	2,339	177	8,631
Disposals	—	(553)	(58)	—	(611)
Depreciation	(187)	(5,099)	(2,403)	(44)	(7,733)
At 31st March, 2005	3,248	12,294	5,597	239	21,378
At 31st March, 2005					
Cost	5,650	26,609	25,063	775	58,097
Accumulated depreciation	(2,402)	(14,315)	(19,466)	(536)	(36,719)
Net book amount	3,248	12,294	5,597	239	21,378
Net book amount					
At 1st April, 2005	3,248	12,294	5,597	239	21,378
Additions	—	3,809	2,892	585	7,286
Acquisition of a subsidiary	—	57	279	—	336
Transfer to investment properties	(1,169)	—	—	—	(1,169)
Disposals	—	(98)	—	—	(98)
Depreciation	(439)	(7,389)	(1,936)	(201)	(9,965)
At 31st March, 2006	**1,640**	**8,673**	**6,832**	**623**	**17,768**
At 31st March, 2006					
Cost	4,481	24,469	27,956	1,360	58,266
Accumulated depreciation	(2,841)	(15,796)	(21,124)	(737)	(40,498)
Net book amount	**1,640**	**8,673**	**6,832**	**623**	**17,768**

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Buildings HK$'000 (Restated)	Leasehold improvement HK$'000	Plant and machinery, furniture and equipment HK$'000	Total HK$'000
At 1st April, 2004				
Cost	913	1,201	13,113	15,227
Accumulated depreciation	(390)	(183)	(10,449)	(11,022)
Net book amount	523	1,018	2,664	4,205
Net book amount				
At 1st April, 2004	523	1,018	2,664	4,205
Additions	—	274	1,577	1,851
Depreciation	(39)	(208)	(750)	(997)
At 31st March, 2005	484	1,084	3,491	5,059
At 31st March, 2005				
Cost	913	1,475	14,690	17,078
Accumulated depreciation	(429)	(391)	(11,199)	(12,019)
Net book amount	484	1,084	3,491	5,059
Net book amount				
At 1st April, 2005	484	1,084	3,491	5,059
Additions	—	—	753	753
Transfer to investment property	(484)	—	—	(484)
Depreciation	—	(221)	(844)	(1,065)
At 31st March, 2006	**—**	**863**	**3,400**	**4,263**
At 31st March, 2006				
Cost	429	1,475	15,443	17,347
Accumulated depreciation	(429)	(612)	(12,043)	(13,084)
Net book amount	**—**	**863**	**3,400**	**4,263**

16. LEASEHOLD INTERESTS IN LAND

(a) Group

	2006 HK$'000	2005 HK$'000 (Restated)
Opening net carrying amount	6,114	6,248
Amortisation charge for the year	(134)	(134)
Closing net carrying amount	5,980	6,114

The prepaid lease payments for leasehold interests in land are held under long and medium term leases in Hong Kong of HK$678,000 (2005: HK$679,000) and HK$5,302,000 (2005: HK$5,435,000) respectively.

(b) Company

	2006 HK$'000	2005 HK$'000 (Restated)
Opening net carrying amount	679	680
Amortisation charge for the year	(1)	(1)
Closing net carrying amount	678	679

The prepaid lease payment for leasehold interest in land is held under a long term lease in Hong Kong.

17. INVESTMENT PROPERTIES

(a) Group

	2006 HK$'000	2005 HK$'000
Opening net carrying amount	—	—
Transfer from property, plant and equipment	1,169	—
Depreciation	(35)	—
Closing net carrying amount	1,134	—

All of the Group's investment properties are situated in Hong Kong.

The fair value of the Group's investment properties at 31st March, 2006 was approximately HK$3,070,000 which were based on the valuation performed by BMI Appraisals Limited, a firm of independent professional surveyors. Valuations were based on the properties' open market value on 31st March, 2006.

17. INVESTMENT PROPERTIES (Continued)

(b) Company

	2006 HK$'000	2005 HK$'000
Opening net carrying amount	—	—
Transfer from property, plant and equipment	484	—
Depreciation	(17)	—
Closing net carrying amount	467	—

The Company's investment property is situated in Hong Kong.

The fair value of the Company's investment property at 31st March, 2006 was approximately HK$870,000 which was based on the valuation performed by BMI Appraisals Limited, a firm of independent professional surveyors. Valuation was based on the property's open market value on 31st March, 2006.

18. INTERESTS IN SUBSIDIARIES — COMPANY

	2006 HK$'000	2005 HK$'000
Investments in subsidiaries		
Unlisted shares, at cost	127,926	127,926
Less: Provision for impairment losses	(5,142)	(5,142)
	122,784	122,784
Amounts due from subsidiaries	—	546,733
Amounts due to subsidiaries	—	(185,638)
	122,784	483,879
Amounts due from subsidiaries	566,195	—
Amounts due to subsidiaries	(194,050)	—

The amounts due from/to subsidiaries are unsecured, interest free, except for receivables of HK$206,006,000 (2005: HK$190,184,000) and payables of HK$17,506,000 (2005: HK$21,029,000) which bear interest rates ranging from 0.98% to 5.96% per annum (2005: 1.03% to 4.39% per annum), and repayable on demand.

18. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Details of the subsidiaries as at 31st March, 2006 are as follows:

Name	Place of incorporation/ operation	Particulars of issued capital	Percentage of issued capital held by Group	Company	Principal activities
Evermind Limited	Hong Kong	10,000 ordinary shares of HK$1 each	80	80	Investment holding
Jacqueline Emporium Limited	Hong Kong	1,000 ordinary shares of HK$100 each	100	—	Investment and watch trading
Jet Bright Trading Limited	Hong Kong	2 ordinary shares of HK$1 each	100	—	Jewellery and watch retailing
King Fook China Resources Limited	Hong Kong	2 ordinary shares of HK$10 each	100	100	Investment holding
King Fook Commodities Company Limited	Hong Kong	50,000 ordinary shares of HK$100 each	100	—	Commodities broking
King Fook Gold & Jewellery Company Limited	Hong Kong	546,750 ordinary shares of HK$100 each	100	100	Investment holding and trading
King Fook Jewellery Group Limited	Hong Kong	600,000 ordinary shares of HK$100 each	100	100	Gold ornament, jewellery and watch retailing and bullion trading
King Fook Investment Company Limited	Hong Kong	2,500,000 ordinary shares of HK$1 each	100	100	Investment holding
King Fook International Money Exchange (Kowloon) Limited	Hong Kong	65,000 ordinary shares of HK$100 each	100	—	Dormant
King Fook Holding Management Limited	Hong Kong	50 ordinary shares of HK$100 each	100	100	Dormant
King Fook Securities Company Limited	Hong Kong	10,000,000 ordinary shares of HK$1 each	100	—	Securities broking
King Shing Bullion Traders & Finance Company Limited	Hong Kong	60,000 ordinary shares of HK$100 each	100	—	Dormant
King Fook Jewellery Designing & Trading Company Limited	Hong Kong	5,000 ordinary shares of HK$100 each	100	—	Dormant
Kingswood Trading Limited**	Hong Kong	2 ordinary shares of HK$1 each	100	—	Under liquidation
Mario Villa Limited	Hong Kong	2,000,000 ordinary shares of HK$1 each	100	100	Investment trading
Perfectrade Limited	Hong Kong	20,000 ordinary shares of HK$1 each	80	—	Provision of interior design services
Polyview International Limited	Hong Kong	2 ordinary shares of HK$1 each	100	100	Watch trading
Rich Point Trading Limited	Hong Kong	2 ordinary shares of HK$1 each	100	—	Dormant
Superior Travellers Services Limited	Hong Kong	2 ordinary shares of HK$1 each	100	100	Sale of travel related products and provision of marketing services for sale of travel related products
Sure Glory Limited	Hong Kong	2 ordinary shares of HK$1 each	100	—	Jewellery and watch retailing
Trade Vantage Holdings Limited	Hong Kong	2 ordinary shares of HK$1 each	100	—	Jewellery and watch retailing

18. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Name	Place of incorporation/ operation	Particulars of issued capital	Percentage of issued capital held by Group	Percentage of issued capital held by Company	Principal activities
Yatheng Investments Limited	Hong Kong	10,000 ordinary shares of HK$1 each	100	—	Property subletting
Young's Diamond Corporation (International) Limited	Hong Kong	100,000 ordinary shares of HK$100 each	97.8	97.8	Diamond wholesaling
Young's Diamond Factory Limited	Hong Kong	2,000 ordinary shares of US$10 each	97.8	—	Diamond wholesaling
Elias Holdings Limited	The Republic of Liberia	1 ordinary share with no par value	100	100	Dormant
Guangzhou Free Trade Zone King Fook Gold & Jewellery Company Limited	The People's Republic of China, limited liability company	US$1,000,000	100	100	Dormant
King Fook (Beijing) Consultancy Services Limited#	The People's Republic of China, limited liability company	US$100,000	100	—	Business consultancy
Young's Diamond Corporation (Shanghai) Limited#	The People's Republic of China, limited liability company	US$200,000	100	100	Diamond wholesaling
King Fook (Shanghai) International Trading Limited#	The People's Republic of China, limited liability company	US$200,000	100	—	Gold ornament, jewellery, watch wholesaling
King Fook Jewellery (China) Company Limited	The People's Republic of China, limited liability company	RMB10,000,000	100	—	Gold ornament, jewellery, watch and diamond retailing and wholesaling
Metal Innovation Limited	British Virgin Islands and operating in Hong Kong	1 ordinary share of US$1	80	—	Design and metalising
Most Worth Investments Limited	British Virgin Islands	100 ordinary shares of US$1 each	100	100	Investment holding
Mempro Limited	Isle of Man	100 ordinary shares of £1 each	60	—	Investment holding
Mempro S.A.	Switzerland	100 ordinary shares of CHF1,000 each	54	—	Import and distribution of memory extensions and computer peripheral products
PTE Engineering Limited*	Hong Kong	10,000 ordinary shares of HK$1 each	80	—	Provision of construction services
Jewellery Hospital Company Limited*	Hong Kong	10,000 ordinary shares of HK$1 each	100	—	Manufacturing of jewellery products
Perfectrade Macau^	Macau	MOP 25,000	80	—	Provision of interior design services
Top Angel Limited^	Hong Kong	1 ordinary share of HK$1 each	100	—	Trading of fashion

\# The names of these subsidiaries represent management's translation of the Chinese names of these companies as no English names have been registered.

* Companies acquired during the year ended 31st March, 2006.

^ Companies established during the year ended 31st March, 2006.

** The company was liquidated in June 2006.

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	2006 HK$'000	2005 HK$'000
Share of net assets	**4,940**	4,884

Details of the jointly controlled entities, established and operating in the PRC and Singapore and held indirectly by the Company as at 31st March, 2006, are as follows:

Name	Principal activity
Shandong Tarzan King Fook Precious Metal Refinery Co. Ltd.*	Gold refining and assaying
Jet Quay Pte. Ltd.^	Provision of premium hospitality services

* The name of the jointly controlled entity represents management's translation of the Chinese name of the company as no English name has been registered.

^ The company was established during the year ended 31st March, 2006.

Pursuant to the joint venture agreement dated 25th January, 2002, the Group established a jointly controlled entity in the PRC with a PRC partner. The jointly controlled entity is a limited liability company with a registered capital of RMB10,000,000 and has a joint venture period of 15 years. The Group has 49% interest in ownership and profit sharing and 40% interest in voting power in the jointly controlled entity.

During the year ended 31st March, 2006, the Group established another jointly controlled entity in Singapore. The jointly controlled entity is a limited liability company with registered capital of SGD100 and the Group has 30% interest in ownership and profit sharing.

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:

	2006 HK$'000	2005 HK$'000
Non-current assets	**1,703**	1,897
Current assets	**3,445**	3,121
	5,148	5,018
Current liabilities	**(208)**	(134)
Net assets	**4,940**	4,884
Income	**1,041**	693
Expenses	**(1,027)**	(583)
Profit for the year	**14**	110

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

20. AVAILABLE-FOR-SALE INVESTMENTS — GROUP (formerly known as non-trading investments)

	2006 HK$'000	2005 HK$'000
Equity securities, at market value and fair value		
Listed in Hong Kong	104,083	51,463
Listed outside Hong Kong*	8,120	14,367
	112,203	65,830

* As at 31st March, 2006, Mr. Yeung Ping Leung, Howard (a director of the Company) and Horsham Enterprises Limited (a company beneficially owned by Mr. Yeung Ping Leung, Howard and Mr. Yeung Bing Kwong, Kenneth, directors of the Company) held 41.2% (2005: 34.3%) and 5.2% (2005: 6.6%) equity interests in that company respectively.

The amounts presented for the listed equity securities have been determined directly by reference to published price quotations in active markets.

These investments are subject to financial risk exposure in terms of price risk.

As at 31st March, 2006, the carrying amount of interest in the following company exceeded 10% of the total assets of the Group:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
Hong Kong Exchanges and Clearing Limited	Hong Kong	Owns and operates the only stock exchange and futures exchange in Hong Kong	2,224,000 shares of HK$1 each	0.1%

21. OTHER ASSETS — GROUP

	2006 HK$'000	2005 HK$'000
Statutory deposits	2,125	2,105
Guarantee deposit	78	—
	2,203	2,105

22. GOODWILL — GROUP

The net carrying amount of goodwill can be analysed as follows:

	HK$'000
At 1st April, 2004	
Gross carrying amount	2,074
Accumulated amortisation	(413)
Net book value	1,661

22. GOODWILL — GROUP (Continued)

	2006 HK$'000	2005 HK$'000
Net book value		
Opening net carrying amount	—	1,661
Amortisation charge for the year	—	(414)
Provision for impairment losses	—	(1,247)
Closing net carrying amount	—	—
Closing carrying amount		
Gross carrying amount	—	2,074
Accumulated amortisation	—	(827)
Accumulated impairment losses	—	(1,247)
Net book value	—	—

The change in the gross carrying amount of goodwill between 31st March, 2005 and 31st March, 2006 was caused by the transitional provisions of HKFRS 3. In accordance with HKFRS 3, all accumulated amortisation and impairment losses were eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1st April, 2005.

23. INVENTORIES — GROUP

	2006 HK$'000	2005 HK$'000
Jewellery	198,828	195,456
Gold ornament and bullion	34,154	24,931
Watches and gifts	342,631	328,832
	575,613	549,219

24. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Trade debtors	43,717	38,921	—	—
Other receivables	15,258	9,530	6,479	6,088
Deposits and prepayments	12,547	11,690	371	845
Insurance claim receivable (note 27(b))	12,000	—	—	—
	83,522	60,141	6,850	6,933

24. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

At 31st March, the ageing analysis of the trade debtors was as follows:

	Group	
	2006	2005
	HK$'000	HK$'000
Within 30 days	**40,923**	34,402
31–90 days	**903**	2,401
More than 90 days	**1,891**	2,118
	43,717	38,921

The trade debtors as at the year end mainly consist of receivables of the securities broking business amounting to HK$22,695,000 (2005: HK$22,096,000), the credit terms of which are in accordance with the securities broking industry practice. The remaining balance of trade debtors are primarily receivables from retailing and bullion trading and diamond wholesaling businesses which are normally due within three months.

25. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS — GROUP (formerly known as trading investments)

	2006	2005
	HK$'000	HK$'000
Equity securities, at market value and fair value		
Listed in Hong Kong	**9,271**	15,453

The above investments are classified as held for trading.

Investments 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 investments at fair value through profit or loss are recorded in other operating income/expenses in the income statement.

26. CASH AND CASH EQUIVALENTS

(a) Group

Cash and cash equivalents include the following components:

	2006	2005
	HK$'000	HK$'000
Cash at banks and in hand	**27,622**	34,418
Short-term bank deposits	**22,733**	—
	50,355	34,418

26. CASH AND CASH EQUIVALENTS (Continued)

(a) Group (Continued)

The effective interest rates of short-term bank deposits ranged from 0.25% to 3.05% per annum (2005: 0.01% to 0.55% per annum). These deposits have a maturity of 1 to 31 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in cash at banks and in hand of the Group are bank balances of HK$4,119,000 (2005: HK$6,771,000) denominated in Renminbi ("RMB") and placed with banks in the PRC. RMB is not a freely convertible currency.

(b) Company

	2006 HK$'000	2005 HK$'000
Cash at banks and in hand	**19,509**	937

27. CREDITORS, ACCRUALS AND PROVISION

	Group		Company	
	2006 HK$'000	2005 HK$'000	**2006 HK$'000**	2005 HK$'000
Trade payables (note (a))	**25,075**	24,832	**—**	—
Other payables and accruals	**21,415**	17,399	**5,224**	4,167
Deposits received	**5,798**	5,925	**60**	497
Other provision (note (b))	**26,395**	—	**—**	—
	78,683	48,156	**5,284**	4,664

(a) At 31st March, the ageing analysis of the trade payables was as follows:

	Group	
	2006 HK$'000	2005 HK$'000
Within 30 days	**24,787**	24,832
31–90 days	**270**	—
More than 90 days	**18**	—
	25,075	24,832

(b) The Company had discovered that a former director of a subsidiary of the Group might have misappropriated securities belonging to clients of the Group. At the best estimates of the directors of the Company, such securities have a total market value of about HK$28,800,000. The Group has taken out an insurance policy with a cover of HK$15 million (subject to an excess of HK$3 million). A full provision of HK$16,800,000 on the net exposure, representing the market value of the securities less insurance covered resulting from this event was charged to the income statement during the year ended 31st March, 2006.

28. GOLD LOANS, UNSECURED

Gold loans bear interest at fixed rates ranging from 0.98% to 1.50% per annum at 31st March, 2006 (2005: 1.40% to 1.70% per annum).

29. BANK LOANS AND OVERDRAFTS, UNSECURED

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank overdrafts	**—**	549	**—**	—
Bank loans	**181,000**	181,687	**181,000**	179,000
	181,000	182,236	**181,000**	179,000
Bank loans and overdrafts are repayable as follows:				
Within one year	**83,000**	62,236	**83,000**	59,000
In the second year	**28,000**	22,000	**28,000**	22,000
In third to fifth years, inclusive	**70,000**	98,000	**70,000**	98,000
	181,000	182,236	**181,000**	179,000
Portion classified as current liabilities	**(83,000)**	(62,236)	**(83,000)**	(59,000)
Non-current portion	**98,000**	120,000	**98,000**	120,000

All bank loans and overdrafts were denominated in Hong Kong dollars, bearing interest at variable rates ranging from 2.66% to 8.60% per annum at 31st March, 2006 (2005: 1.03% to 6.00% per annum).

30. PROVISION FOR LONG SERVICE PAYMENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
At the beginning of the year	**607**	706	**198**	250
Payments	**(45)**	(99)	**(45)**	(52)
Write back	**(130)**	—	**—**	—
At the end of the year	**432**	607	**153**	198

The balances as at 31st March, 2005 and 2006 represent the provision for entitlements of the Group's employees to long service payments on termination of their employment under the required circumstances specified in the Employment Ordinance which are not covered by the Group's provident fund schemes.

31. SHARE CAPITAL

	2006 HK$'000	2005 HK$'000
Authorised:		
620,000,000 (2005: 620,000,000) ordinary shares of HK$0.25 each	**155,000**	155,000
Issued and fully paid:		
435,071,650 (2005: 435,071,650) ordinary shares of HK$0.25 each	**108,768**	108,768

32. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity of the financial statements.

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

(b) Company

	Share premium HK$'000	Retained profits HK$'000	Total HK$'000
At 1st April, 2004	17,575	177,760	195,335
Profit for the year	—	2,253	2,253
Dividends	—	(3,915)	(3,915)
At 31st March, 2005	17,575	176,098	193,673
Representing:			
Proposed final dividend (note 10)		3,481	
Others		172,617	
		176,098	
At 1st April, 2005	17,575	176,098	193,673
Profit for the year	—	18,251	18,251
Dividends	—	(5,439)	(5,439)
At 31st March, 2006	**17,575**	**188,910**	**206,485**
Representing:			
Proposed final dividend (note 10)		3,481	
Others		185,429	
		188,910	

Details of the share premium account of the Company are set out in note 32(a) above.

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT — GROUP

(a) Reconciliation of profit before taxation to net cash generated from/(used in) operations

	Notes	2006 HK$'000	2005 HK$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		22,003	20,984
Amortisation of goodwill		—	414
Amortisation of leasehold interests in land		134	134
Depreciation of property, plant and equipment		9,965	7,733
Depreciation of investment properties		35	—
Dividend income from investments at fair value through profit or loss/available-for-sale investments		(3,083)	(1,544)
Exchange differences		87	9
Loss on disposal of property, plant and equipment		98	590
Provision for impairment losses of goodwill		—	1,247
Interest expense		9,685	3,313
Interest income		(468)	(342)
Gain on disposal of available-for-sale investments		(13,082)	(2,702)
Fair value change of investments at fair value through profit or loss		(5,345)	(4,388)
Provision for impairment losses of debtors		23	1,522
Provision for and write down of inventories		1,086	268
Provision for loss resulting from misappropriation of clients' securities, net	*27(b)*	16,800	—
Write back of provision for long service payments		(130)	—
Share of profit of jointly controlled entities		(14)	(110)
Operating profit before working capital changes		37,794	27,128
Increase in inventories		(20,543)	(52,745)
(Increase)/decrease in debtors, deposits and prepayments		(11,360)	28,299
Decrease in investments at fair value through profit or loss		11,527	—
Increase/(decrease) in creditors and accruals		1,060	(25,259)
Increase in gold loans		—	176
Decrease in provision for long service payments		(45)	(99)
Cash generated from/(used in) operations		18,433	(22,500)

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT — GROUP (Continued)

(b) Acquisition of subsidiaries

The Group acquired certain subsidiaries as set out in note 18 to these financial statements. The acquired businesses contributed revenue and net loss of HK$44,000 and HK$67,500 respectively to the Group since the respective dates of acquisition. If the acquisitions had occurred on 1st April, 2005, the Group's revenue would have been approximately HK$801,029,000 and profit for the year would have been approximately HK$18,743,000.

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

	Fair value 2006 HK$'000
Net assets acquired:	
Property, plant and equipment	336
Inventories	368
Debtors, deposits and prepayments	44
Cash and cash equivalents	—
Creditors and accruals	(667)
	81
Goodwill arising on acquisition (Note 22)	—
	81

An analysis of the net outflow of cash in respect of the acquisitions of subsidiaries is as follows:

	2006 HK$'000
Cash consideration	81

There was no acquisition of subsidiary in the year ended 31st March, 2005.

34. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a taxation rate of 17.5% (2005: 17.5%).

The movement in the deferred taxation account is as follows:

	Group 2006 HK$'000	2005 HK$'000
At the beginning and the end of the year	—	—

34. **DEFERRED TAX** (Continued)

The movement in deferred tax assets and liabilities (prior to offsetting of balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities/(assets)

	Accelerated taxation depreciation		Tax losses		Net amount shown in balance sheet	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
At the beginning of the year	**935**	1,201	**(935)**	(1,201)	**—**	—
Charged/(credited) to income statement	**(545)**	(266)	**545**	266	**—**	—
At the end of the year	**390**	935	**(390)**	(935)	**—**	—

Deferred income tax assets are recognised for tax loss carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$74,515,000 (2005: HK$77,697,000) to carry forward against future taxable income and these tax losses have no expiry date.

The Company has no material tax losses to carry forward against future taxable income as at 31st March, 2006. The Company had unrecognised tax losses of HK$2,011,000 as at 31st March, 2005 to carry forward against future taxable income and these tax losses had no expiry date.

35. **OPERATING LEASE COMMITMENTS**

At 31st March, the total future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**31,397**	38,809	**779**	256
In the second to fifth years, inclusive	**9,746**	23,108	**292**	—
	41,143	61,917	**1,071**	256

At 31st March, 2006, the Group had total future minimum sublease payments expected to be received under non-cancellable subleases amounting to HK$600,000 (2005: HK$1,560,000).

The Group and the Company lease a number of properties under operating leases. The leases run for an initial period of one to four and two years respectively, without option to renew the lease term at the expiry date. The leases include contingent rentals.

36. FUTURE OPERATING LEASE RECEIVABLES

At 31st March, the total future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**620**	367	**230**	—
In the second to fifth years, inclusive	**252**	40	**77**	—
	872	407	**307**	—

37. CAPITAL COMMITMENTS

Capital commitments in relation to purchase of property, plant and equipment are as follows:

	Group and Company	
	2006	2005
	HK$'000	HK$'000
Contracted but not provided for	**—**	34

38. RELATED PARTY TRANSACTIONS — GROUP

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year and in the prior year:

	2006	2005
	HK$'000	HK$'000
Operating lease rental on land and buildings paid to related companies:		
Stanwick Properties Limited (Note a)	**6,019**	5,612
Contender Limited (Note b)	**10,529**	10,662
Consultancy fees paid to a related company (Note c)	**2,500**	2,200
Interest expense paid to a director (Note d)	**—**	172

Notes:

(a) The operating lease rental was paid to Stanwick Properties Limited ("Stanwick") for the office and shop premises occupied by the Group in King Fook Building, Des Voeux Road Central, Hong Kong. Stanwick is a wholly owned subsidiary of Yeung Chi Shing Estates Limited, a substantial shareholder of the Company. Mr. Yeung Ping Leung, Howard and Mr. Yeung Bing Kwong, Kenneth, directors of the Company, together with other members of their family control the management of Yeung Chi Shing Estates Limited.

(b) The operating lease rental was paid to Contender Limited ("Contender"), a wholly owned subsidiary of Miramar Hotel and Investment Company, Limited ("Miramar"), a substantial shareholder of the Company, for the shop premises occupied by a wholly owned subsidiary of the Company on the ground and first floors of the Shopping Arcade of Hotel Miramar. Mr. Tang Yat Sun, Richard, Dr. Sin Wai Kin and Mr. Cheng Ka On, Dominic, directors of the Company, are directors and shareholders of Miramar. Mr. Yeung Ping Leung, Howard is a director of the Company and Miramar. Pursuant to an offer letter dated 27th March, 2006, a wholly owned subsidiary of the Company and Contender agreed to enter into a tenancy agreement on normal commercial terms relating to shops 1B1 and 1B2, 1st Basement Level of the Shopping Arcade of Hotel Miramar ("Shops 1B1 and 1B2") for a term of three years from 9th June, 2006 to 8th June, 2009 at the monthly rent of HK$473,430. However, no formal tenancy agreement in respect of Shops 1B1 and 1B2 was signed as at 31st March, 2006.

38. RELATED PARTY TRANSACTIONS — GROUP (Continued)

Notes: (Continued)

(c) The Company has entered into a consultation service agreement with Verbal Company Limited ("Verbal"), whereby Verbal provides the services of Mr. Yeung Ping Leung, Howard to the Group. Mr. Yeung Ping Leung, Howard and Mr. Tang Yat Sun, Richard are directors of the Company and Verbal, and Mr. Yeung Ping Leung, Howard has a beneficial interest in Verbal.

(d) The Group borrowed an unsecured short-term loan of HK$15,000,000 from a director of the Company. The loan was repayable on demand and was totally repaid during the year ended 31st March, 2005. Interest was charged on the loan at 1.50% per annum.

(e) Compensation of key management personnel

	2006	2005
	HK$'000	HK$'000
Total remuneration of directors and other members of key management during the year	**4,718**	4,277

Further details of directors' remuneration are included in note 13 to the financial statements.

39. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group utilises conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

(a) Credit risk

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The Group's maximum exposure to credit risk in the event of the counter parties' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment loss are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

(b) Foreign currency risk

The Group does not have significant foreign currency risk as the sales and purchases are predominantly in Hong Kong Dollars.

(c) Interest rate risk

The Group has no significant interest bearing assets except cash and cash equivalents. The Group's interest rate risk arises from borrowings. The interest rates and terms of repayment are disclosed in note 29.

39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

40. CONTINGENCIES

As at 31st March, 2006, the Group had contingent liabilities in respect of bank guarantees up to HK$5 million given to third parties and other matters arising in the ordinary course of business.

41. SUBSEQUENT EVENTS

Subsequent to 31st March, 2006, the Group disposed of 350,000 shares in Hong Kong Exchanges and Clearing Limited as detailed in the circular of the Company dated 28th April, 2006.

On 16th June, 2006, the Company obtained the authorisation of the shareholders of the Company for the following matters as detailed in the circular of the Company dated 30th May, 2006:

1. entering into the following agreements with Contender:

    (a) a tenancy agreement relating to shop units G1–2 and G1A on Ground Floor and shop units AR201–02 and AR217 on 1st Floor of the Shopping Arcade of Hotel Miramar for a term of up to three years from 16th July, 2006 at the prevailing market rent not exceeding that valued by an independent valuer appointed by the Company;

    (b) a tenancy agreement relating to shops 2B1 and 2B2 on 2nd Basement Level of the Shopping Arcade of Hotel Miramar for a term from the date of delivery of vacant possession of such property by Contender up to the expiry date of the tenancy agreement in respect of shops 1B1 and 1B2 on 1st Basement Level of the said Shopping Arcade at the prevailing market rent not exceeding that valued by an independent valuer appointed by the Company; and

    (c) a license agreement relating to advertising signboards C1 and C2 at the external wall of Hotel Miramar for a term of three years from the date of delivery of vacant possession of such advertising signboards by Contender; and

2. further disposal of up to 1,874,000 shares of Hong Kong Exchanges and Clearing Limited to independent third parties.

42. COMPARATIVES

Certain comparatives were reclassified to conform with current year's presentation as a result of the change in accounting policies. Further details are disclosed in note 2.

Summary of Investment Properties

Description	Lot No.	Gross floor area (sq.feet)	Interest attributable to the Group	Type	Lease Term
1st Floor, Cheung Hing Commercial Building, No. 37 Cochrane Street, Central, Hong Kong	The remaining portion of section A Inland Lot No. 105 The remaining portion of sub-section 5 of section B of Inland Lot No. 105	1,141	100%	C	Long
Unit K on 3rd Floor, Kaiser Estate 2nd Phase, Nos. 47–53 Man Yue Street & Nos. 20–28 Man Lok Street, Hunghom, Kowloon	The remaining portion of section H of Kowloon Marine Lot No. 40	5,316	97.8%	C	Medium
Private car parking space Nos. G10 & G33 on Ground Floor, Kaiser Estate 2nd Phase, Nos. 47–53 Man Yue Street & Nos. 20–28 Man Lok Street, Hunghom, Kowloon	The remaining portion of section H of Kowloon Marine Lot No. 40	N/A	97.8%	CP	Medium

C: Commercial
CP: Carpark
N/A: Not applicable

Five Year Financial Summary

	2006 HK$'000	2005 HK$'000 (Restated)	2004 HK$'000 (Restated)	2003 HK$'000 (Restated)	2002 HK$'000 (Restated)
Assets and liabilities					
Total assets	**862,989**	759,987	723,814	655,821	676,687
Total liabilities	**285,973**	242,184	231,834	216,655	213,237
Current assets/current liabilities (times)	**3.83**	5.43	3.00	3.76	3.89
Capital and reserves					
Capital and reserves	**577,016**	517,803	491,980	439,166	463,450
Capital and reserves per share (HK$)	**1.33**	1.19	1.13	1.01	1.07
Total assets/capital and reserves (times)	**1.50**	1.47	1.47	1.49	1.46
Earnings					
Profit/(loss) before taxation	**22,003**	20,984	24,632	(26,720)	(16,655)
Profit/(loss) attributable to shareholders	**17,947**	20,562	24,536	(26,880)	(16,064)
Earnings/(loss) per share (cents)	**4.13**	4.73	5.64	(6.18)	(3.69)
Return on average total assets	**2.2%**	2.8%	3.6%	(4.0%)	(2.3%)
Return on average capital and reserves	**3.3%**	4.1%	5.3%	(6.0%)	(3.4%)
Dividend					
Dividend paid	**5,439**	3,915	—	—	—
Dividend per share (cents)	**1.25**	0.90	—	—	—
Dividend cover (times)	**3.30**	5.25	—	—	—