**IMPORTANT**
**THIS CIRCULAR REQUIRES YOUR IMMEDIATE ATTENTION**



**If you are in doubt** as to any aspect of this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold** all your shares in King Fook Holdings Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or to the bank, stockbroker or other agent through whom the sale was effected for transmission to the purchaser.

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king fook holdings limited
景福集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 280)**

# PROPOSAL RELATING TO DISPOSAL WHICH MAY CONSTITUTE A VERY SUBSTANTIAL DISPOSAL

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A notice convening an extraordinary general meeting of King Fook Holdings Limited to be held at 4:30 p.m. on 15th June, 2007 at Tsui Hang Village Restaurant, 2nd Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong is set out on page 92 of this circular. Whether or not you are able to attend the meeting, please complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible and in any event by no later than 48 hours before the time appointed for the holding of the meeting. Completion and delivery of the form of proxy shall not preclude you from attending and voting at the meeting or any adjournment thereof should you so wish.

29th May, 2007

# CONTENTS

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

| | |
|---|---|
| "associate" | has the meaning ascribed to it under the Listing Rules |
| "Board" | board of Directors |
| "Company" | King Fook Holdings Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange |
| "Contender" | Contender Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of Miramar |
| "Directors" | directors of the Company |
| "Disposal Proposal" | The proposal on disposal of 1,874,000 HKEC Shares referred to in the section headed "The Disposal Proposal" in the Letter from the Board |
| "Disposal Shares" | 1,874,000 HKEC Shares owned by KF Securities |
| "EGM" | the extraordinary general meeting of the Company to be held at 4:30 p.m. on 15th June, 2007, notice of which is set out on page 92 of this circular |
| "Existing Tenancy Agreements" | 6 tenancy agreements all dated 13th August, 2005 between the Tenants and the Landlord respectively in respect of the Properties |
| "Group" | the Company and its subsidiaries |
| "HKEC" | Hong Kong Exchanges and Clearing Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange |
| "HKEC Share(s)" | share(s) of HK$1 each in the share capital of HKEC |
| "Hotel Miramar Shopping Arcade" | the Shopping Arcade at Hotel Miramar, 118-130 Nathan Road, Tsimshatsui, Kowloon |
| "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "KF Jewellery" | King Fook Jewellery Group Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company |
| "KF Securities" | King Fook Securities Company Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company |

| | |
|---|---|
| "Landlord" | Stanwick Properties Limited, a wholly owned subsidiary of YCS |
| "Latest Practicable Date" | 23rd May, 2007, being the latest practicable date prior to printing of this circular for ascertaining certain information for inclusion in this circular |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Miramar" | Miramar Hotel and Investment Company, Limited, a company incorporated in Hong Kong with limited liability and the shares of which are listed on the Main Board of the Stock Exchange, and a substantial shareholder of the Company |
| "PRC" | the People's Republic of China |
| "Properties" | Basement, Ground Floor, Mezzanine Floor, and 3rd, 5th, 8th, 9th and 10th Floors of King Fook Building, 30-32 Des Voeux Road Central, Hong Kong |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | share(s) of HK$0.25 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of Share(s) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Tenancy Agreements" | 6 tenancy agreements all dated 4th May, 2007 between the Tenants and the Landlord respectively in respect of the Properties |
| "Tenants" | the Company and KF Jewellery |
| "Top Angel" | Top Angel Limited, a company incorporated in Hong Kong with limited liability and a wholly owned subsidiary of the Company |
| "YCS" | Yeung Chi Shing Estates Limited, a company incorporated in Hong Kong with limited liability and a substantial shareholder of the Company |
| "HK$" and "HK cent(s)" | Hong Kong dollar(s) and cent(s) respectively |

king fook holdings limited
景福集團有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 280)**

**Directors:**
Yeung Ping Leung, Howard
Tang Yat Sun, Richard
Cheng Ka On, Dominic
Yeung Bing Kwong, Kenneth
Fung Chung Yee, Caroline
Wong Wei Ping, Martin *
Ho Hau Hay, Hamilton *
Sin Nga Yan, Benedict *
Lau To Yee **
Cheng Kar Shing, Peter **
Chan Chak Cheung, William **

* *Non-executive Directors*
** *Independent non-executive Directors*

**Registered Office:**
9th Floor
King Fook Building
30-32 Des Voeux Road Central
Hong Kong

29th May, 2007

To the shareholders

Dear Sir or Madam,

**PROPOSAL RELATING TO DISPOSAL WHICH MAY CONSTITUTE A VERY SUBSTANTIAL DISPOSAL**

## INTRODUCTION

It was announced on 7th May, 2007 that the Company proposes to renew the authorisation of Shareholders for disposal of the Disposal Shares held by KF Securities to independent third parties which may constitute a very substantial disposal of the Company under the Listing Rules.

The purpose of this circular is to give you further details of the above proposal and to convene an extraordinary general meeting to consider and, if thought fit, pass the necessary resolution to approve such proposal.

## THE DISPOSAL PROPOSAL

### Assets to be disposed of

On 16th June, 2006, the Company obtained an authorisation from the Shareholders to dispose of up to 1,874,000 HKEC Shares held by KF Securities, a wholly owned subsidiary of the Company, to independent purchasers at prevailing market prices on-market through the Stock Exchange within one year from that date. Up to the date of this circular, KF Securities still holds the Disposal Shares. The Company proposes to seek renewal of Shareholders' authorisation for disposal of the Disposal Shares to independent purchasers at prevailing market prices on-market through the Stock Exchange for a period of one year from 16th June, 2007 (the "Disposal Proposal").

HKEC is a company incorporated in Hong Kong. It owns and operates the only stock exchange and futures exchange in Hong Kong and their related clearing houses. For the two years ended 31st December, 2006, its net profits before taxation were about HK$1,567,018,000 and HK$2,963,467,000 respectively. For the two years ended 31st December, 2006, its net profits after taxation were about HK$1,339,558,000 and HK$2,518,569,000 respectively. KF Securities received dividends totalling HK$2,117,620 and HK$3,991,620 for these two years in respect of the Disposal Shares.

The book value of the Disposal Shares held by KF Securities as at 4th May, 2007 amounted to HK$144,204,300.

KF Securities will realise a gain equal to the amount of the net proceeds (after expenses) on any disposal of the Disposal Shares.

### Reasons for the Disposal Proposal

The existing authorisation for the disposal of the Disposal Shares will expire on 15th June, 2007. The Directors consider that the Disposal Proposal is fair and reasonable and in the interest of the Company and the Shareholders as a whole as it will provide KF Securities with the flexibility to dispose of the Disposal Shares in the market efficiently to realise the gain on this holding.

### Use of proceeds

It is intended that the proceeds under the Disposal Proposal will be used as additional working capital and to reduce the liability of the Group.

### Listing Rules requirements

Based on the closing price of HK$87.20 per HKEC Share quoted on the Stock Exchange as at the Latest Practicable Date, the total consideration for the disposal of all of the Disposal Shares will be HK$163,412,800. Such disposal may constitute a very substantial disposal of the Company which requires the approval of Shareholders in accordance with the Listing Rules.

Further announcement on the disposal of the Disposal Shares will be made after all of the Disposal Shares have been disposed of.

**Financial effect of the Group's position after implementation of the Disposal Proposal**

Any disposal of HKEC Shares by KF Securities pursuant to the Disposal Proposal will have the effect of increasing the asset value of the Group by the amount of the net proceeds and increasing the earnings of the Group for the relevant financial year, but will not affect the liability of the Group.

**Profit and loss statement on and valuation attributable to the Disposal Shares under the Disposal Proposal**

In accordance with Rule 14.68(2)(b)(i) of the Listing Rules, the profit and loss statement on and valuation attributable to the Disposal Shares for each of the three years ended 31st March, 2004, 2005 and 2006 and for the nine months ended 31st December, 2006 are set out below. In the opinion of the Directors, such information has been properly compiled and derived from the underlying books and records of the Group. Grant Thornton, the reporting accountants of the Group, have compared and found that such information has been properly compiled and derived from the underlying books and records of the Group by the Company.

*(i) Profit and loss statement*

| | Year ended 31st March, | | | Nine months ended 31st December, |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Dividend income *(Note)* | 5,068 | 804 | 1,799 | 2,961 |
| Profit for the year/period | 5,068 | 804 | 1,799 | 2,961 |

*Note:* The dividend income was generated from the Disposal Shares during the relevant year/period.

*(ii) Valuation*

| | As at 31st March, | | | As at 31st December, |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Available-for-sale investments under Disposal Proposal *(Note)* | 31,296 | 37,761 | 87,703 | 160,227 |

*Note:* The valuation of the Disposal Shares was based on the closing prices quoted on the Stock Exchange at the respective balance sheet dates.

## MANAGEMENT DISCUSSION AND ANALYSIS OF FINANCIAL POSITION OF THE GROUP

### Liquidity and financial resources

The Group centralises funding for all its operations through the corporate treasury based in Hong Kong. This policy achieves better control of treasury operations and lower average cost of funds.

As at 30th September, 2006, the Group had current assets of HK$811 million. There were bank balances and cash of HK$87 million. The Group's current liabilities were HK$289 million including gold loans equivalent to HK$26 million which were made in terms of ounces of gold. Included in the total borrowings of the Group were bank loans and overdrafts of HK$229 million and loan from other financial institution of HK$24 million which were made in Hong Kong dollars. All borrowings of the Group as at 30th September, 2006 (which were unsecured and unguaranteed) were interest bearing and were not at fixed interest rate. Except for the non-current portion of bank loans amounting to HK$83 million which were repayable in the second to fifth year, all borrowings of the Group were repayable within one year.

Based on the total borrowings of the Group of HK$279 million and the capital and reserves attributable to the Shareholders of about HK$590 million, the overall borrowings to equity ratio increased to 47% as at 30th September, 2006 and 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.

Most of the Group's assets and liabilities, revenue and payments were in Hong Kong dollars.

### Contingencies

As at 30th September, 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. It is not anticipated that there are any material contingent liabilities.

### Charges

The Group had no charges on its assets as at 30th September, 2006.

### Employees

As at 30th September, 2006, the Group had approximately 310 employees. The employees are remunerated according to the nature of their jobs and are entitled to an incentive bonus based on their performance.

## FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group is principally engaged in retailing of gold ornaments, jewellery, watches and gifts, trading of bullion, wholesaling of diamond and securities broking in Hong Kong.

The retail business of the Group has shown satisfactory growth as a result of the booming economy of PRC and good consumer sentiment in Hong Kong. The Group plans to expand its retailing business in PRC, especially in major cities such as Shanghai and Beijing. The management will look for suitable investment opportunities and continue to introduce more international branded jewellery and watches to satisfy customer need. Recently the Group has introduced a series of "Day Night" diamond jewellery to customers who favour stylish jewellery. The management will follow its prudent management policy and take steps to improve the Group's businesses. In order to upgrade customer services, the management will continue to provide more training programs for the frontline staff in both Hong Kong and PRC. In respect of the Group's securities broking business, it is expected that the Group's future profit attributable to this division will be maintained at a lower level due to the keen competition with brokers and banks in Hong Kong.

Save as the aforesaid, there is no other information required to be disclosed under Rule 14.68(3) of the Listing Rules.

## EXTRAORDINARY GENERAL MEETING

You will find on page 92 of this circular a notice of the EGM to be held at 4:30 p.m. on 15th June, 2007 at Tsui Hang Village Restaurant, 2nd Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong at which a resolution will be proposed as an ordinary resolution to approve the Disposal Proposal.

There is enclosed a form of proxy for use at the EGM. You are requested to complete the form of proxy and return it to the registered office of the Company in accordance with the instructions printed thereon not less than 48 hours before the time fixed for holding the EGM, whether or not you intend to be present at the EGM. The completion and return of the form of proxy will not prevent you from attending and voting in person should you so wish.

According to the Articles of Association of the Company, on or before the declaration of the result of voting on a show of hands on a resolution at the EGM, a poll may be demanded by:

(a) at least three members present in person or by proxy entitled to vote at the EGM; or

(b) any member or members present in person or by proxy and representing not less than 10% of the total voting rights of all the members having the right to vote at the EGM; or

(c) any member or members present in person or by proxy and holding Shares conferring a right to vote at the EGM being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

## RECOMMENDATION

The Directors believe that the Disposal Proposal is fair and reasonable and in the interest of the Company and the Shareholders as a whole and so recommend you to vote in favour of the resolution to be proposed at the EGM. The Directors intend to vote in favour of such resolution in respect of their shareholdings in the Company.

## ADDITIONAL INFORMATION

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

Yours faithfully,
**Yeung Ping Leung, Howard**
*Chairman*

## 1. SUMMARY OF AUDITED FINANCIAL STATEMENTS

Set out below is a summary of the consolidated results, assets and liabilities of the Group for each of the three years ended 31st March, 2006.

The consolidated results, assets and liabilities of the Group for the years ended 31st March, 2005 and 2006 were extracted from the published audited financial statements of the Company for the year ended 31st March, 2006.

As of 1st April, 2005, the Group has adopted the new or amended standards and interpretations of Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The adoption of the new or amended standards and interpretations of HKFRS ("new HKFRS") resulted in changes in the accounting policies as set out in note 2.2 to the audited financial statements of the Company for the year ended 31st March, 2006. Therefore, certain figures and presentation of the consolidated results, assets and liabilities of the Group as at 31st March, 2004 have been restated in accordance with specific transitional provisions required under the new HKFRS. Accordingly, certain financial information for the year ended 31st March, 2004, including figures and presentation, have been amended in accordance with HKAS 8, Accounting Policies, Changes in Accounting Estimates and Errors.

In the opinion of the Directors, the financial information for the three years ended 31st March, 2006 presented below is comparable despite the adoption of the new HKFRS.

**RESULTS**

**Consolidated Income Statement**

| | Year ended 31st March, | | |
|---|---|---|---|
| | **2006** | 2005 | 2004 |
| | **HK$'000** | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) |
| **Revenue** | **798,912** | 679,320 | 612,065 |
| Cost of sales | **(622,900)** | (515,688) | (477,374) |
| **Gross profit** | **176,012** | 163,632 | 134,691 |
| Other operating income | **33,297** | 12,574 | 30,751 |
| Distribution and selling costs | **(102,698)** | (101,796) | (96,895) |
| Administrative expenses | **(57,251)** | (46,430) | (36,941) |
| Other operating expenses | **(17,686)** | (3,793) | (2,855) |
| **Operating profit** | **31,674** | 24,187 | 28,751 |
| Finance costs | **(9,685)** | (3,313) | (4,253) |
| Share of profit of jointly controlled entities | **14** | 110 | 134 |
| **Profit before taxation** | **22,003** | 20,984 | 24,632 |
| Taxation | **(3,928)** | (449) | (126) |
| **Profit for the year** | **18,075** | 20,535 | 24,506 |
| **Attributable to:** | | | |
| Shareholders of the Company | **17,947** | 20,562 | 24,536 |
| Minority interests | **128** | (27) | (30) |
| **Profit for the year** | **18,075** | 20,535 | 24,506 |
| **Dividends** | **5,439** | 5,221 | 2,175 |
| **Earnings per share for profit attributable to the shareholders of the Company during the year** | | | |
| – Basic (HK cents) | **4.1 cents** | 4.7 cents | 5.6 cents |

## ASSETS AND LIABILITIES

### Consolidated Balance Sheet

| | 2006 | As at 31st March, 2005 | 2004 |
|---|---|---|---|
| | **HK$'000** | HK$'000 | HK$'000 |
| | | (Restated) | (Restated) |
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | **17,768** | 21,378 | 21,095 |
| Leasehold interests in land | **5,980** | 6,114 | 6,244 |
| Investment properties | **1,134** | - | - |
| Interests in jointly controlled entities | **4,940** | 4,884 | 4,853 |
| Available-for-sale investments | **112,203** | 65,830 | 54,544 |
| Other assets | **2,203** | 2,105 | 2,105 |
| Goodwill | **-** | - | 1,661 |
| | **144,228** | 100,311 | 90,502 |
| **Current assets** | | | |
| Inventories | **575,613** | 549,219 | 496,742 |
| Debtors, deposits and prepayments | **83,522** | 60,141 | 89,962 |
| Investments at fair value through profit or loss | **9,271** | 15,453 | 11,658 |
| Tax recoverable | **-** | 445 | 195 |
| Cash and cash equivalents | **50,355** | 34,418 | 34,755 |
| | **718,761** | 659,676 | 633,312 |
| **Current liabilities** | | | |
| Creditors, accruals and provision | **78,683** | 48,156 | 73,415 |
| Taxation payable | **852** | - | 17 |
| Loan from a director | **-** | - | 15,000 |
| Gold loans, unsecured | **25,006** | 11,185 | 11,009 |
| Bank loans and overdrafts, unsecured | **83,000** | 62,236 | 111,687 |
| | **187,541** | 121,577 | 211,128 |
| **Net current assets** | **531,220** | 538,099 | 422,184 |
| **Total assets less current liabilities** | **675,448** | 638,410 | 512,686 |
| **Non-current liabilities** | | | |
| Bank loans, unsecured | **98,000** | 120,000 | 20,000 |
| Provision for long service payments | **432** | 607 | 706 |
| | **98,432** | 120,607 | 20,706 |
| **Net assets** | **577,016** | 517,803 | 491,980 |
| **CAPITAL AND RESERVES** | | | |
| **Capital and reserves attributable to the shareholders of the Company** | | | |
| Share capital | **108,768** | 108,768 | 108,768 |
| Other reserves | **147,470** | 101,053 | 91,850 |
| Retained profits | | | |
| Proposed final dividend | **3,481** | 3,481 | 2,175 |
| Others | **316,687** | 304,179 | 288,838 |
| | **576,406** | 517,481 | 491,631 |
| **Minority interests** | **610** | 322 | 349 |
| | **577,016** | 517,803 | 491,980 |

## 2. FINANCIAL STATEMENTS OF THE GROUP

2.1 Set out below are the audited financial statements of the Group as extracted from the annual report of the Group for the year ended 31st March, 2006:

**Consolidated Income Statement**
For the year ended 31st March, 2006

| | *Notes* | **2006 HK$'000** |
|---|---|---|
| **Revenue** | *4* | **798,912** |
| Cost of sales | | **(622,900)** |
| **Gross profit** | | **176,012** |
| Other operating income | | **33,297** |
| Distribution and selling costs | | **(102,698)** |
| Administrative expenses | | **(57,251)** |
| Other operating expenses | | **(17,686)** |
| **Operating profit** | | **31,674** |
| Finance costs | *6* | **(9,685)** |
| Share of profit of jointly controlled entities | | **14** |
| **Profit before taxation** | *7* | **22,003** |
| Taxation | *8* | **(3,928)** |
| **Profit for the year** | | **18,075** |
| **Attributable to:** | | |
| Shareholders of the Company | *9* | **17,947** |
| Minority interests | | **128** |
| **Profit for the year** | | **18,075** |
| **Dividends** | *10* | **5,439** |
| **Earnings per share for profit attributable to the shareholders of the Company during the year** | *11* | |
| – Basic (HK cents) | | **4.1 cents** |

## Consolidated Balance Sheet
As at 31st March, 2006

| | Notes | 2006 HK$'000 |
|---|---|---|
| **ASSETS AND LIABILITIES** | | |
| **Non-current assets** | | |
| Property, plant and equipment | *15* | **17,768** |
| Leasehold interests in land | *16* | **5,980** |
| Investment properties | *17* | **1,134** |
| Interests in jointly controlled entities | *19* | **4,940** |
| Available-for-sale investments | *20* | **112,203** |
| Other assets | *21* | **2,203** |
| Goodwill | *22* | **-** |
| | | **144,228** |
| **Current assets** | | |
| Inventories | *23* | **575,613** |
| Debtors, deposits and prepayments | *24* | **83,522** |
| Investments at fair value through profit or loss | *25* | **9,271** |
| Tax recoverable | | **-** |
| Cash and cash equivalents | *26* | **50,355** |
| | | **718,761** |
| **Current liabilities** | | |
| Creditors, accruals and provision | *27* | **78,683** |
| Taxation payable | | **852** |
| Gold loans, unsecured | *28* | **25,006** |
| Bank loans and overdrafts, unsecured | *29* | **83,000** |
| | | **187,541** |
| **Net current assets** | | **531,220** |
| **Total assets less current liabilities** | | **675,448** |
| **Non-current liabilities** | | |
| Bank loans, unsecured | *29* | **98,000** |
| Provision for long service payments | *30* | **432** |
| | | **98,432** |
| **Net assets** | | **577,016** |
| **CAPITAL AND RESERVES** | | |
| **Capital and reserves attributable to the shareholders of the Company** | | |
| Share capital | *31* | **108,768** |
| Other reserves | *32(a)* | **147,470** |
| Retained profits | *32(a)* | |
| Proposed final dividend | | **3,481** |
| Others | | **316,687** |
| | | **576,406** |
| **Minority interests** | | **610** |
| | | **577,016** |

**Balance Sheet**
As at 31st March, 2006

| | Notes | 2006 HK$'000 |
|---|---|---|
| **ASSETS AND LIABILITIES** | | |
| **Non-current assets** | | |
| Property, plant and equipment | *15* | **4,263** |
| Leasehold interest in land | *16* | **678** |
| Investment property | *17* | **467** |
| Interests in subsidiaries | *18* | **122,784** |
| | | **128,192** |
| **Current assets** | | |
| Debtors, deposits and prepayments | *24* | **6,850** |
| Amounts due from subsidiaries | *18* | **566,195** |
| Cash and cash equivalents | *26* | **19,509** |
| | | **592,554** |
| **Current liabilities** | | |
| Creditors, accruals and provision | *27* | **5,284** |
| Amounts due to subsidiaries | *18* | **194,050** |
| Gold loans, unsecured | *28* | **25,006** |
| Bank loans and overdrafts, unsecured | *29* | **83,000** |
| | | **307,340** |
| **Net current assets** | | **285,214** |
| **Total assets less current liabilities** | | **413,406** |
| **Non-current liabilities** | | |
| Bank loans, unsecured | *29* | **98,000** |
| Provision for long service payments | *30* | **153** |
| | | **98,153** |
| **Net assets** | | **315,253** |
| **CAPITAL AND RESERVES** | | |
| **Capital and reserves attributable to the shareholders of the Company** | | |
| Share capital | *31* | **108,768** |
| Other reserves | *32(b)* | **17,575** |
| Retained profits | *32(b)* | |
| Proposed final dividend | | **3,481** |
| Others | | **185,429** |
| | | **315,253** |

## 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, 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 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Cash generated from operations | *33(a)* | **18,433** |
| Interest received | | **468** |
| Hong Kong profits tax paid | | **(2,706)** |
| Hong Kong profits tax refunded | | **85** |
| Overseas tax paid | | **(10)** |
| *Net cash generated from operating activities* | | **16,270** |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Increase in other assets | | **(98)** |
| Acquisitions of subsidiaries, net of cash acquired | *33(b)* | **(81)** |
| Proceeds from sale of available-for-sale investments* | | **13,082** |
| Dividends received from investments at fair value through profit or loss#/available-for-sale investments* | | **3,083** |
| Dividends received from a jointly controlled entity | | **75** |
| Purchase of property, plant and equipment | | **(7,286)** |
| *Net cash generated from investing activities* | | **8,775** |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Interest paid | | **(9,685)** |
| New bank loans | | **68,252** |
| Repayment of bank loans | | **(61,687)** |
| Dividends paid | | **(5,439)** |
| *Net cash used in financing activities* | | **(8,559)** |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | | **16,486** |
| Cash and cash equivalents at the beginning of the year | | **33,869** |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR** | | **50,355** |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | |
| Bank balances and cash | | **50,355** |

* *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 10 to 62 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 |
| 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.

**2.2.3** ***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.

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) | **-** |

**2.2.8** 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

### 2.2.9 *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.

## 2.4 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.

**2.6 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.

***(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.

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.

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.

**2.15 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.

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.

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.

**(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.

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;

(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.

(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).

### (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** |

| | 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 |

### (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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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 |

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** |

**(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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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.

### (b) Company

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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.

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 |

| Name | Place of incorporation/ operation | Particulars of issued capital | Percentage of issued capital held by Group | Company | Principal activities |
|---|---|---|---|---|---|
| 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 |

| Name | Place of incorporation/ operation | Particulars of issued capital | Percentage of issued capital held by Group | Company | Principal activities |
|---|---|---|---|---|---|
| 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 |
| 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 | RMB 10,000,000 | 100 | - | Gold ornament, jewellery, watch and diamond retailing and wholesaling |

| Name | Place of incorporation/ operation | Particulars of issued capital | Percentage of issued capital held by Group | Company | Principal activities |
|---|---|---|---|---|---|
| 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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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<br>HK$'000 | 2005<br>HK$'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 |

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

| | 2006<br>HK$'000 | 2005<br>HK$'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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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 |

| | 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** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'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 |

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 |

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

## 27. CREDITORS, ACCRUALS AND PROVISION

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'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** | 2005 |
| | **HK$'000** | HK$'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** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'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) |

**(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** | 2005 |
| | **HK$'000** | HK$'000 |
| At the beginning and the end of the year | **-** | - |

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.

(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.

### (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.

2.2 Set out below are the unaudited financial statements of the Group as extracted from the interim report of the Group for the six months ended 30th September, 2006:

**Condensed Consolidated Income Statement**
For the six months ended 30th September, 2006

| | | Unaudited Six months ended 30th September, | |
|---|---|---|---|
| | | **2006** | 2005 |
| | *Notes* | **HK$'000** | HK$'000 |
| **Revenue** | *3* | **414,166** | 309,341 |
| Cost of sales | | **(327,838)** | (232,063) |
| **Gross profit** | | **86,328** | 77,278 |
| Other operating income | | **28,760** | 10,892 |
| Distribution and selling costs | | **(60,652)** | (53,130) |
| Administrative expenses | | **(31,601)** | (24,659) |
| Other operating expenses | | **(97)** | (130) |
| **Operating profit** | | **22,738** | 10,251 |
| Finance costs | | **(6,021)** | (3,678) |
| Share of (loss)/profit of a jointly controlled entity | | **(72)** | 55 |
| **Profit before taxation** | *4* | **16,645** | 6,628 |
| Taxation | *6* | **(1,286)** | (272) |
| **Profit for the period** | | **15,359** | 6,356 |
| **Attributable to:** | | | |
| Shareholders of the Company | | **15,351** | 5,888 |
| Minority interests | | **8** | 468 |
| **Profit for the period** | | **15,359** | 6,356 |
| **Dividend** | *7* | **1,958** | 1,958 |
| **Earnings per share for profit attributable to the shareholders of the Company** | | | |
| - Basic | *8* | **HK 3.5 cents** | HK 1.4 cents |

## Condensed Consolidated Balance Sheet
As at 30th September, 2006 and 31st March, 2006

| | Notes | Unaudited 30th September, 2006 HK$'000 | Audited 31st March, 2006 HK$'000 |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | *9* | **21,421** | 17,768 |
| Leasehold interests in land | | **5,915** | 5,980 |
| Investment properties | | **1,111** | 1,134 |
| Interests in jointly controlled entities | | **4,966** | 4,940 |
| Available-for-sale investments | *10* | **116,140** | 112,203 |
| Other assets | | **2,181** | 2,203 |
| | | **151,734** | 144,228 |
| **Current assets** | | | |
| Inventories | | **605,319** | 575,613 |
| Debtors, deposits and prepayments | *11* | **103,476** | 83,522 |
| Investments at fair value through profit or loss | | **14,998** | 9,271 |
| Cash and cash equivalents | | **87,116** | 50,355 |
| | | **810,909** | 718,761 |
| **Current liabilities** | | | |
| Creditors, accruals and provisions | *12* | **90,985** | 78,683 |
| Taxation payable | | **1,168** | 852 |
| Gold loans, unsecured | | **25,963** | 25,006 |
| Borrowings, unsecured | *13* | **170,416** | 83,000 |
| | | **288,532** | 187,541 |
| **Net current assets** | | **522,377** | 531,220 |
| **Total assets less current liabilities** | | **674,111** | 675,448 |
| **Non-current liabilities** | | | |
| Borrowings, unsecured | *13* | **83,000** | 98,000 |
| Provision for long service payments | | **425** | 432 |
| | | **83,425** | 98,432 |
| **Net assets** | | **590,686** | 577,016 |
| **CAPITAL AND RESERVES** | | | |
| **Capital and reserves attributable to the shareholders of the Company** | | | |
| Share capital | *14* | **108,768** | 108,768 |
| Other reserves | | **149,284** | 147,470 |
| Retained profits | | | |
| Others | | **330,080** | 316,687 |
| Proposed dividend | | **1,958** | 3,481 |
| | | **590,090** | 576,406 |
| **Minority interests** | | **596** | 610 |
| | | **590,686** | 577,016 |

**Condensed Consolidated Cash Flow Statement**
For the six months ended 30th September, 2006

| | Unaudited Six months ended 30th September, 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Net cash outflow from operating activities | **(36,147)** | (7,320) |
| Net cash generated from investing activities | **9,994** | 551 |
| Net cash generated from financing activities | **62,843** | 21,154 |
| Net increase in cash and cash equivalents | **36,690** | 14,385 |
| Cash and cash equivalents at the beginning of the period | **50,355** | 33,869 |
| Cash and cash equivalents at the end of the period | **87,045** | 48,254 |
| **Analysis of the balances of cash and cash equivalents** | | |
| Bank balances and cash | **87,116** | 48,268 |
| Bank overdrafts | **(71)** | (14) |
| | **87,045** | 48,254 |

## Condensed Consolidated Statement of Changes in Equity
For the six months ended 30th September, 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 |
| **Unaudited** | | | | | | | | | |
| **For the six months ended 30th September, 2006** | | | | | | | | | |
| At 1st April, 2006 | 108,768 | 17,575 | 24,753 | 126 | 105,016 | 320,168 | 576,406 | 610 | 577,016 |
| Change in fair value of available-for-sale investments | - | - | - | - | 17,419 | - | 17,419 | - | 17,419 |
| Realisation of fair value change of available-for-sale investments on disposal | - | - | - | - | (16,380) | - | (16,380) | - | (16,380) |
| Exchange translation differences | - | - | - | 775 | - | - | 775 | (22) | 753 |
| Net income/(expense) recognised directly in equity | - | - | - | 775 | 1,039 | - | 1,814 | (22) | 1,792 |
| Profit for the period | - | - | - | - | - | 15,351 | 15,351 | 8 | 15,359 |
| Total recognised income and expense for the period | - | - | - | 775 | 1,039 | 15,351 | 17,165 | (14) | 17,151 |
| Dividend *(note 7(b))* | - | - | - | - | - | (3,481) | (3,481) | - | (3,481) |
| **At 30th September, 2006** | **108,768** | **17,575** | **24,753** | **901** | **106,055** | **332,038** | **590,090** | **596** | **590,686** |
| *Representing:* | | | | | | | | | |
| Proposed interim dividend | | | | | | 1,958 | | | |
| Others | | | | | | 330,080 | | | |
| **Retained profits as at 30th September, 2006** | | | | | | **332,038** | | | |

| | 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 |
| Unaudited<br>For the six months ended 30th September, 2005 | | | | | | | | | |
| 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 | - | - | - | - | 12,717 | - | 12,717 | - | 12,717 |
| Exchange translation differences | - | - | - | 422 | - | - | 422 | - | 422 |
| Net income recognised directly in equity | - | - | - | 422 | 12,717 | - | 13,139 | - | 13,139 |
| Profit for the period | - | - | - | - | - | 5,888 | 5,888 | 468 | 6,356 |
| Total recognised income and expense for the period | - | - | - | 422 | 12,717 | 5,888 | 19,027 | 468 | 19,495 |
| Dividend | - | - | - | - | - | (3,481) | (3,481) | - | (3,481) |
| At 30th September, 2005 | 108,768 | 17,575 | 24,753 | 504 | 71,360 | 310,067 | 533,027 | 790 | 533,817 |
| *Representing:* | | | | | | | | | |
| Proposed interim dividend | | | | | | 1,958 | | | |
| Others | | | | | | 308,109 | | | |
| Retained profits as at 30th September, 2005 | | | | | | 310,067 | | | |

**Notes to the Condensed Financial Statements**

## 1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim financial statements (the ‘‘Interim Financial Statements’’) are prepared in accordance with Hong Kong Accounting Standard (‘‘HKAS’’) 34 ‘‘Interim Financial Reporting’’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and applicable disclosure provisions in Appendix 16 of the Listing Rules. The Interim Financial Statements should be read in conjunction with the annual financial statements of the Company for the year ended 31st March, 2006 (the ‘‘2006 Annual Financial Statements’’).

## 2. PRINCIPAL ACCOUNTING POLICIES

The accounting policies and methods of computation used in the preparation of the Interim Financial Statements are consistent with those used in the 2006 Annual Financial Statements.

The following new standards, amendments to standards and interpretations are relevant to the Group’s operations and are applicable for the year ending 31st March, 2007:

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

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

The above mentioned new standards, amendments to standards and interpretations have no material impact on the Group’s operations.

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 such standards and interpretations will not result in substantial changes to the Group’s accounting policies.

| | |
|---|---|
| HKAS 1 (Amendment) | Capital Disclosures [1] |
| HKFRS 7 | Financial Instruments – Disclosures [1] |
| HK(IFRIC) – Int 9 | Reassessment of Embedded Derivatives [2] |

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

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

## 3. REVENUE AND SEGMENT INFORMATION

### (a) Business segments

The Group is principally engaged in gold ornament, jewellery, watch and gift retailing, bullion trading, securities broking and diamond wholesaling. An analysis of the Group's revenue and results for the period by business segments is as follows:

| | Unaudited Six months ended 30th September, 2006 | | |
|---|---|---|---|
| | Retailing, bullion trading and diamond wholesaling HK$'000 | Securities broking HK$'000 | Group HK$'000 |
| Segment revenue – Turnover | **410,790** | **3,376** | **414,166** |
| Segment results | **20,673** | **20,371** | **41,044** |
| Unallocated results | | | **(18,306)** |
| Operating profit | | | **22,738** |
| Finance costs | | | **(6,021)** |
| Share of loss of a jointly controlled entity | **(72)** | | **(72)** |
| Profit before taxation | | | **16,645** |
| Taxation | | | **(1,286)** |
| Profit for the period | | | **15,359** |

| | Unaudited Six months ended 30th September, 2005 | | |
|---|---|---|---|
| | Retailing, bullion trading and diamond wholesaling HK$'000 | Securities broking HK$'000 | Group HK$'000 |
| Segment revenue – Turnover | 306,312 | 3,029 | 309,341 |
| Segment results | 20,269 | 2,041 | 22,310 |
| Unallocated results | | | (12,059) |
| Operating profit | | | 10,251 |
| Finance costs | | | (3,678) |
| Share of profit of a jointly controlled entity | 55 | | 55 |
| Profit before taxation | | | 6,628 |
| Taxation | | | (272) |
| Profit for the period | | | 6,356 |

**(b) Geographical segments**

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

## 4. PROFIT BEFORE TAXATION

Profit before taxation is stated after crediting and charging the following:

| | Unaudited Six months ended 30th September, 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| *Crediting:* | | |
| Dividend income | **3,342** | 2,956 |
| Interest income | **417** | 194 |
| Fair value change of investments at fair value through profit or loss | **852** | 1,452 |
| Gain on disposal of available-for-sale investments | **18,270** | - |
| Rental income less outgoings | | |
| – owned properties | **580** | 503 |
| – operating subleases | **582** | 459 |
| *Charging:* | | |
| Amortisation of leasehold interests in land | **65** | 65 |
| Cost of inventories sold | **322,372** | 233,722 |
| Depreciation of property, plant and equipment | **5,082** | 4,134 |
| Depreciation of investment properties | **23** | 23 |
| Net provision for and write down of inventories | **1,551** | 1,239 |
| Operating lease charges in respect of properties | **25,581** | 21,227 |
| Write off of property, plant and equipment | **7** | 103 |

## 5. EMPLOYEE BENEFIT EXPENSE

| | **Unaudited Six months ended 30th September, 2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Wages, salaries and allowances | **32,247** | 25,251 |
| Pension costs – defined contribution retirement schemes | **1,652** | 1,379 |
| Overprovision for long service payments | **-** | (131) |
| | **33,899** | 26,499 |

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

## 6. TAXATION

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

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

| | **Unaudited Six months ended 30th September, 2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Current tax | | |
| – Hong Kong profits tax | **1,200** | 229 |
| – Overseas taxation | **86** | 43 |
| | **1,286** | 272 |

## 7. DIVIDEND

| | Unaudited Six months ended 30th September, 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Interim dividend declared after the interim period end of HK0.45 cent (2005: HK0.45 cent) per ordinary share | **1,958** | 1,958 |

*Notes:*

(a) At a meeting held on 8th December, 2006, the directors declared an interim dividend of HK0.45 cent per ordinary share for the year ending 31st March, 2007. This interim dividend is not reflected as a dividend payable in the Interim Financial Statements, but will be reflected as an appropriation of retained profits for the year ending 31st March, 2007.

(b) At a meeting held on 4th July, 2006, the directors proposed a final dividend of HK0.8 cent per ordinary share for the year ended 31st March, 2006, which was approved by the shareholders at the annual general meeting held on 31st August, 2006. This final dividend was paid on 6th September, 2006 and has been reflected as an appropriation of retained profits for the six months ended 30th September, 2006.

(c) At a meeting held on 9th December, 2005, the directors declared an interim dividend of HK0.45 cent per ordinary share for the year ended 31st March, 2006. This interim dividend was paid on 13th January, 2006 and was reflected as an appropriation of retained profits for the year ended 31st March, 2006.

## 8. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the shareholders of the Company of HK$15,351,000 (2005: HK$5,888,000) and on 435,071,650 (2005: 435,071,650) ordinary shares in issue during the period.

Diluted earnings per share was not presented as there was no potential dilutive effect (2005: Nil).

## 9. CAPITAL EXPENDITURES

During the period, the Group incurred capital expenditures of approximately HK$8,743,000 (2005: HK$1,760,000) which mainly related to the acquisitions of leasehold improvements, furniture and equipment.

## 10. AVAILABLE-FOR-SALE INVESTMENTS

Included in available-for-sale investments are equity securities of a company listed outside Hong Kong (''the Investee Company'') stated at market value of HK$6,705,000 (At 31st March, 2006: HK$8,120,000).

As at 30th September, 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% (At 31st March, 2006: 41.2%) and 5.2% (At 31st March, 2006: 5.2%) equity interests in the Investee Company respectively.

## 11. DEBTORS, DEPOSITS AND PREPAYMENTS

Included in debtors, deposits and prepayments are trade debtors and their ageing analysis is as follows:

| | Within 30 days HK$'000 | 31-90 days HK$'000 | More than 90 days HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Balance at 30th September, 2006 (Unaudited)** | **27,952** | **2,961** | **1,458** | **32,371** |
| Balance at 31st March, 2006 (Audited) | 40,923 | 903 | 1,891 | 43,717 |

As at 30th September, 2006, the trade debtors mainly consist of receivables of the securities broking business amounting to HK$13,298,000 (At 31st March, 2006: HK$22,695,000), the credit terms of which are in accordance with securities broking industry practice. The remaining balance of trade debtors are primarily receivables from retailing, bullion trading and diamond wholesaling businesses which are normally due within three months.

## 12. CREDITORS, ACCRUALS AND PROVISIONS

Included in creditors, accruals and provisions are trade creditors and their ageing analysis is as follows:

| | Within 30 days HK$'000 | 31-90 days HK$'000 | More than 90 days HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Balance at 30th September, 2006 (Unaudited)** | **46,993** | **201** | **144** | **47,338** |
| Balance at 31st March, 2006 (Audited) | 24,787 | 270 | 18 | 25,075 |

During the year ended 31st March, 2006, the Company had discovered that a former director of a subsidiary of the Group might have misappropriated securities belonging to clients of the Group. The directors of the Company assessed the gross loss arising from this event and a provision for such loss of HK$28,800,000 was made in the consolidated balance sheet as at 31st March, 2006. Based on current information, no further provision was made during the six months ended 30th September, 2006.

## 13. BORROWINGS, UNSECURED

| | Unaudited 30th September, 2006 HK$'000 | Audited 31st March, 2006 HK$'000 |
|---|---|---|
| Bank loans, unsecured and repayable as follows: | | |
| – Within one year | **146,000** | 83,000 |
| – In the second year | **38,000** | 28,000 |
| – In third to fifth years, inclusive | **45,000** | 70,000 |
| Loan from other financial institution, unsecured and repayable within one year | **24,345** | - |
| Bank overdrafts, unsecured | **71** | - |
| | **253,416** | 181,000 |
| Portion classified as current liabilities | **(170,416)** | (83,000) |
| Non-current portion | **83,000** | 98,000 |

## 14. SHARE CAPITAL

| | Unaudited 30th September, 2006 HK$'000 | Audited 31st March, 2006 HK$'000 |
|---|---|---|
| Authorised: | | |
| 620,000,000 ordinary shares of HK$0.25 each | **155,000** | 155,000 |
| Issued and fully paid: | | |
| 435,071,650 ordinary shares of HK$0.25 each | **108,768** | 108,768 |

## 15. COMMITMENTS

### (a) Commitments under operating leases

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of properties as follows:

| | **Unaudited 30th September, 2006 HK$'000** | Audited 31st March, 2006 HK$'000 |
|---|---|---|
| Within one year | **40,238** | 31,397 |
| In the second to fifth years, inclusive | **45,680** | 9,746 |
| | **85,918** | 41,143 |

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

At 30th September, 2006, the Group had total future minimum sublease payments expected to be received under non-cancellable subleases amounting to HK$120,000 (At 31st March, 2006: HK$600,000).

### (b) Future operating lease receivables

The total future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

| | **Unaudited 30th September, 2006 HK$'000** | Audited 31st March, 2006 HK$'000 |
|---|---|---|
| Within one year | **744** | 620 |
| In the second to fifth years, inclusive | **203** | 252 |
| | **947** | 872 |

## 16. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions which were carried out in the normal course of the Group's business:

| | Unaudited Six months ended 30th September, 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Operating lease rentals on land and buildings paid to related companies: | | |
| Stanwick Properties Limited (''Stanwick'') *(Note a)* | **3,139** | 2,901 |
| Contender Limited ("Contender") *(Note b)* | **7,599** | 5,265 |
| Consultancy fees paid to a related company *(Note c)* | **1,200** | 1,050 |

*Notes:*

(a) The operating lease rental was paid to 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, a wholly owned subsidiary of Miramar Hotel and Investment Company, Limited (''Miramar''), a substantial shareholder of the Company, for the shop premises occupied by the Group on the first basement level, the ground and first floors of the Shopping Arcade of Hotel Miramar. Mr. Tang Yat Sun, Richard 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.

(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) Compensation of key management personnel

Included in employee benefit expense is key management personnel compensation and comprises the following categories:

| | Unaudited Six months ended 30th September, 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Wages, salaries and allowances | **3,028** | 2,061 |
| Pension costs – defined contribution retirement schemes | **102** | 88 |
| | **3,130** | 2,149 |

(e) At 30th September, 2006, included in the creditors was an amount due to a director of a subsidiary of approximately HK$2,614,000 (At 31st March, 2006: HK$2,628,000) which was unsecured, interest free and repayable on demand.

## 3. INDEBTEDNESS

As at the close of business on 31st March 2007, being the latest practicable date for ascertaining information regarding this indebtedness statement prior to the printing of this circular, the Group had outstanding borrowings of approximately HK$202 million comprising unsecured long term bank loans of approximately HK$86 million, unsecured short term bank loans of approximately HK$92 million and unsecured gold loan of approximately HK$24 million. There were no secured or guaranteed borrowings.

As at 31st March, 2007, the Group had contingent liabilities in respect of bank guarantees up to HK$6 million provided to third parties and other matters arising in the ordinary course of business.

Save as aforesaid and apart from intra-group liabilities, the Group did not have any bank loans, bank overdrafts and liabilities under acceptances or other similar indebtedness, debentures or other loan capital, mortgages, charges, finance leases or hire purchase commitments, guarantees or other material contingent liabilities outstanding at the close of business on 31st March, 2007.

## 4. WORKING CAPITAL

The Directors are of the opinion that the Group has sufficient working capital for its present requirements for at least 12 months from the date of this circular after taking into account the internal resources of and banking facilities available to the Group.

## 5. MATERIAL CHANGE

Save as disclosed in the Company's interim report for the six months ended 30th September, 2006, the Directors are not aware of any material adverse changes in the financial or trading position or prospects of the Group since 31st March, 2006, being the date to which the latest published audited consolidated financial statements of the Group were made up.

## 1. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is the unaudited consolidated pro forma net assets statement of the Group as at 30th September, 2006 and the unaudited consolidated pro forma profit and loss statement for the six months then ended (collectively known as "unaudited pro forma financial information") which have been prepared in accordance with Rule 4.29 of the Listing Rules to illustrate the effect of the Disposal Proposal as if it had taken place on 30th September, 2006 for the unaudited consolidated pro forma net assets statement and on 1st April, 2006 for the unaudited consolidated pro forma profit and loss statement.

The unaudited pro forma financial information has been prepared for illustrative purpose only, and because of its nature, it may not give a true picture of the Group's financial position or results following completion of the Disposal Proposal.

The unaudited pro forma financial information is based on the unaudited consolidated net assets of the Group as at 30th September, 2006 and the unaudited consolidated income statement for the six months then ended as shown in the unaudited interim financial statements of the Group for the six months ended 30th September, 2006, after giving effect to the pro forma adjustments described in the notes thereto. A narrative description of the pro forma adjustments of the Disposal Proposal that are (i) directly attributable to the Disposal Proposal and not relating to future events or decisions; and (ii) factually supportable, are summarised in the accompanying notes.

The unaudited pro forma financial information of the Group is based on a number of assumptions, estimates and uncertainties. The accompanying unaudited pro forma financial information of the Group does not purport to describe the actual financial position or results of the Group that would have been attained had the Disposal Proposal been completed on 30th September, 2006 for the unaudited consolidated pro forma net assets statement and on 1st April, 2006 for the unaudited consolidated pro forma profit and loss statement. The unaudited pro forma financial information of the Group does not purport to predict the future financial position or results of the Group.

## 1.1 Unaudited consolidated pro forma net assets statement

| | Unaudited as at 30th September, 2006 | Pro forma adjustments | | | Unaudited pro forma as at 30th September, 2006 |
|---|---|---|---|---|---|
| | HK\$'000 | HK\$'000 (Note 1) | HK\$'000 (Note 2) | HK\$'000 (Note 3) | HK\$'000 |
| **ASSETS AND LIABILITIES** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 21,421 | | | | 21,421 |
| Leasehold interests in land | 5,915 | | | | 5,915 |
| Investment properties | 1,111 | | | | 1,111 |
| Interest in a jointly controlled entity | 4,966 | | | | 4,966 |
| Available-for-sale investments | 116,140 | | (106,537) | | 9,603 |
| Other assets | 2,181 | | | | 2,181 |
| | 151,734 | | | | 45,197 |
| **Current assets** | | | | | |
| Inventories | 605,319 | | | | 605,319 |
| Debtors, deposits and prepayments | 103,476 | | | | 103,476 |
| Investments at fair value through profit or loss | 14,998 | | | | 14,998 |
| Cash and cash equivalents | 87,116 | 168,288 | | (400) | 255,004 |
| | 810,909 | | | | 978,797 |
| **Current liabilities** | | | | | |
| Creditors, accruals and provision | 90,985 | | | | 90,985 |
| Taxation payable | 1,168 | | | | 1,168 |
| Gold loans, unsecured | 25,963 | | | | 25,963 |
| Borrowings, unsecured | 170,416 | | | | 170,416 |
| | 288,532 | | | | 288,532 |
| **Net current assets** | 522,377 | | | | 690,265 |
| **Total assets less current liabilities** | 674,111 | | | | 735,462 |
| **Non-current liabilities** | | | | | |
| Borrowings, unsecured | 83,000 | | | | 83,000 |
| Provision for long service payments | 425 | | | | 425 |
| | 83,425 | | | | 83,425 |
| **Net assets** | 590,686 | | | | 652,037 |

*Notes:*

1. The adjustment reflects the estimated net proceeds arising from the Disposal Proposal of approximately HK$168,288,000, after deduction of handling charges of approximately HK$185,000 (i.e. 0.11% on the gross proceeds), to be received by the Group in cash assuming the 1,874,000 HKEC Shares under the Disposal Proposal will be fully disposed of at the price of HK$89.9 per HKEC Share (i.e. the closing price quoted on the Stock Exchange as at 16th May, 2007).

2. The adjustment reflects the fair value of the 1,874,000 HKEC Shares at 30th September, 2006 which were classified as "Available-for-sale investments" under the Disposal Proposal of approximately HK$106,537,000.

3. The adjustment reflects the estimated related expenses to be paid in cash by the Group of approximately HK$400,000 in connection with the Disposal Proposal which are directly attributable to the Disposal Proposal and are based on the latest quotations from various working parties.

4. In prior years, the Group disposed HKEC Shares which were formerly classified as "Non-trading investments" and now reclassified as "Available-for-sale investments" and the net gain from such disposal was not subject to Hong Kong profits tax. Therefore, in the opinion of the Directors, the net gain from proposed disposal of the 1,874,000 HKEC Shares which were classified as "Available-for-sale investments" (note 2) will not be subject to Hong Kong profits tax due to the capital nature of such investments. There is no potential tax liability based on the Company's experience.

## 1.2 Unaudited consolidated pro forma profit and loss statement

| | Unaudited for the six months ended 30th September, 2006 | Pro forma adjustments | | | Unaudited pro forma for the six months ended 30th September, 2006 |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 (Note 1) | HK$'000 (Note 2) | HK$'000 (Note 3) | HK$'000 |
| Revenue | 414,166 | | | | 414,166 |
| Cost of sales | (327,838) | | | | (327,838) |
| Gross profit | 86,328 | | | | 86,328 |
| Other operating income | 28,760 | (2,961) | 80,185 | 87,703 | 193,687 |
| Distribution and selling costs | (60,652) | | | | (60,652) |
| Administrative expenses | (31,601) | | | | (31,601) |
| Other operating expenses | (97) | | | | (97) |
| Operating profit | 22,738 | | | | 187,665 |
| Finance costs | (6,021) | | | | (6,021) |
| Share of loss of a jointly controlled entity | (72) | | | | (72) |
| Profit before taxation | 16,645 | | | | 181,572 |
| Taxation | (1,286) | | | | (1,286) |
| Profit for the period | 15,359 | | | | 180,286 |
| *Attributable to:* | | | | | |
| Shareholders of the Company | 15,351 | (2,961) | 80,185 | 87,703 | 180,278 |
| Minority interests | 8 | | | | 8 |
| Profit for the period | 15,359 | | | | 180,286 |

***Notes:***

1. The adjustment reflects the reversal of dividend income received by the Group for the 1,874,000 HKEC Shares during the six months ended 30th September, 2006 had the Disposal Proposal been in place on 1st April, 2006.

2. The adjustment reflects the net gain arising from the Disposal Proposal assuming these transactions had taken place on 1st April, 2006. The adjustment of approximately HK$80,185,000 takes into account the followings:

   a. the estimated net proceeds of approximately HK$168,288,000, after deduction of handling charges of approximately HK$185,000 (i.e. 0.11% on the gross proceeds), to be received by the Group assuming the 1,874,000 HKEC Shares under the Disposal Proposal will be fully disposed of at the price of HK$89.9 per HKEC Share (i.e. the closing price quoted on the Stock Exchange as at 16th May, 2007);

   b. the fair value of the 1,874,000 HKEC Shares as at 1st April, 2006 to be disposed of amounted to approximately HK$87,703,000; and

c. the estimated related expenses of approximately HK$400,000 in connection with the Disposal Proposal which are directly attributable to the Disposal Proposal and are based on the latest quotations from various working parties.

3. The adjustment reflects the realisation of revaluation surplus of HK$87,703,000 for the 1,874,000 HKEC Shares which were classified as "Available-for-sale investments" assuming the Disposal Proposal had been in place on 1st April, 2006.

## 2. LETTER FROM THE REPORTING ACCOUNTANTS ON THE UNAUDITED PRO FORMA FINANCIAL INFORMATION RELATING TO THE DISPOSAL PROPOSAL

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

Grant Thornton
均富會計師行

Certified Public Accountants
Member of Grant Thornton International

29th May, 2007

The Directors
King Fook Holdings Limited
9/F, King Fook Building
30-32 Des Voeux Road Central
Hong Kong

Dear Sirs

**Accountants' report on the unaudited pro forma financial information to the directors of King Fook Holdings Limited (the "Company")**

We report on the unaudited pro forma financial information of the Company and its subsidiaries (collectively referred to as the "Group"), which has been prepared by the directors of the Company, for illustrative purposes only, to provide information about how the proposed disposal of 1,874,000 shares in Hong Kong Exchanges and Clearing Limited (the "Disposal Proposal") might have affected the financial information presented, for inclusion in Appendix II of the Company's circular dated 29th May, 2007 (the "Circular"). The basis of preparation of the unaudited pro forma financial information is set out in the section headed "Unaudited pro forma financial information" in Appendix II to the Circular.

**Respective responsibilities of directors of the Company and reporting accountants**

It is the responsibility solely of the directors of the Company to prepare the unaudited pro forma financial information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules on the unaudited pro forma financial information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the unaudited pro forma financial information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

**Basis of opinion**

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

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the unaudited pro forma financial information has been properly compiled by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

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

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

- the financial positions of the Group as at 30th September, 2006 or any future date; or

- the results of the Group for the six months ended 30th September, 2006 or any future periods.

**Opinion**

In our opinion:

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

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

c. the adjustments are appropriate for the purposes of the unaudited pro forma financial information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

**Grant Thornton**
*Certified Public Accountants*
Hong Kong

## RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquiries, that to the best of their knowledge and belief there are no other facts the omission of which would make any statement herein misleading.

## DISCLOSURE OF INTERESTS

***Interests of Directors***

As at the Latest Practicable Date, the interests of the Directors in the share capital of the Company which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests which they were taken or deemed to have under such provisions of the SFO), or were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

| Name | Number of Shares | Nature of interest | Percentage of Shareholding |
|---|---|---|---|
| Mr. Tang Yat Sun, Richard | 3,585,000 | Personal | 0.82% |
| Mr. Cheng Ka On, Dominic | 4,035,000 | (Note 1) | 0.93% |
| Mr. Ho Hau Hay, Hamilton | 3,170,000 | Corporate (Note 2) | 0.73% |

*Notes:*

1. *4,020,000 Shares are personal interest and 15,000 Shares are family interest.*

2. *These Shares are held by Tak Hung (Holding) Co. Ltd. in which Mr. Ho has a 40% interest.*

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

***Interests of other persons in the share capital of the Company***

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) had an interest in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

| Name | Number of Shares | Nature of interest | Percentage of Shareholding |
|---|---|---|---|
| YCS | 193,145,055 | Note 1 | 44.39% |
| Miramar | 59,416,000 | Note 2 | 13.66% |
| Miramar Hotel and Investment (Express) Limited ("Miramar Express") | 22,790,000 | Beneficial owner | 5.24% |

*Notes:*

1. *186,985,035 Shares are beneficially owned by YCS while 6,160,020 Shares are its corporate interest.*

2. *28,122,000 Shares are beneficially owned by Miramar while 31,294,000 Shares are its corporate interest.*

Save as disclosed above, as at the Latest Practicable Date, 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 which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Mr. Tang Yat Sun, Richard and Mr. Cheng Ka On, Dominic are directors of Miramar and Miramar Express. Mr. Yeung Ping Leung, Howard is a director of Miramar.

***Interests in other members of the Group***

As at the Latest Practicable Date, so far as is known to the Directors, the following persons (other than a Director or chief executive of the Company) were, directly or indirectly, interested in 10% or more of the nominal value of the share capital carrying rights to vote in all circumstances at general meetings of the following subsidiaries of the Company:

(a) Mr. David Cheng Kam Hung was interested in (i) 20% of the issued share capital of each of Evermind Limited, Perfectrade Limited, Metal Innovation Limited, PTE Engineering Limited and Perfectrade Macau; (ii) 15% of the issued share capital of Mempro Limited; and (iii) 14.85% of the issued share capital of Mempro S.A.; and

(b) Temple Belle Limited was interested in (i) 25% of the issued share capital of Mempro Limited; and (ii) 24.75% of the issued share capital of Mempro S.A..

Save as disclosed above, as at the Latest Practicable Date, the Directors were not aware of any person (other than a Director or chief executive of the Company) who was interested, directly or indirectly, in 10% or more of the issued shares of any member of the Group or any options in respect of such capital.

***Interests of experts in the Group***

The expert named in the paragraph headed "Consent" in this appendix does not have any shareholding in any member of the Group or the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

***Interests in contract or arrangement***

(a) (i) The Company has entered into a licence agreement with YCS 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 agreement commenced from 7th December, 1998 and does not fix the termination date.

(ii) The Tenants entered into the Existing Tenancy Agreements for a term of two years from 16th August, 2005 at the total monthly rent of HK$519,700, exclusive of management fees and air-conditioning charges totalling HK$49,023 per month, and rates.

(iii) KF Jewellery (as tenant) entered into a tenancy agreement dated 4th April, 2007 with Fabrico (Mfg) Limited (a wholly owned subsidiary of YCS) relating to Apartment F, 3rd Floor, Comfort Building, 88 Nathan Road, Kowloon for a term of two years from 1st April, 2007 at the monthly rent of HK$15,000 exclusive of rates.

(iv) The Company has entered into an agreement with the Landlord pursuant to which the Company is granted the right to use the furniture and fixture at 3rd Floor of King Fook Building (which is used by the Group as conference rooms) at the monthly fee of HK$25,480 for a term of two years from 16th August, 2007.

(v) The Tenants entered into the Tenancy Agreements for a term of two years from 16th August, 2007 at the total monthly rent of HK$585,385, exclusive of management fees and air-conditioning charges totalling HK$49,140 per month, and rates.

Mr. Yeung Ping Leung, Howard and Mr. Yeung Bing Kwong, Kenneth, together with other members of their family, control the management of YCS.

(b) (i) KF Jewellery (as tenant) and Contender (as landlord) entered into a tenancy agreement dated 17th October, 2006 relating to Shop units G1-2 and G1A on Ground Floor and Shop units AR201-02 and AR217 on 1st Floor, Hotel Miramar Shopping Arcade for a term of three years from 16th July, 2006 at the total monthly rent of HK$1,100,000 and monthly management fees, air conditioning charges and promotion contribution fees totalling HK$72,867.40.

(ii) Top Angel (as tenant) and Contender (as landlord) entered into a tenancy agreement dated 6th July, 2006 relating to Shops 1B1 and 1B2 on the Basement One Floor, Hotel Miramar Shopping Arcade for a term of three years from 9th June, 2006 at the total monthly rent of HK$473,430 and monthly management fees, air conditioning charges and promotion contribution fees totalling HK$92,476.66. A one-off vetting fee on decoration plan of HK$15,781 has also been paid by Top Angel to Contender.

(iii) Top Angel (as licensee) and Contender (as licensor) have agreed to enter into a license agreement relating to advertising signboards C1 and C2 at the external wall of Hotel Miramar, 118-130 Nathan Road, Tsimshatsui, Kowloon for a term of three years from 14th August, 2006 at the monthly licence fee of HK$40,000.

(iv) Top Angel (as licensee) and Contender (as licensor) have entered into a license agreement relating to the signboard and showcases at Ground Floor Entrance facing Nathan Road of Hotel Miramar Shopping Arcade for a term of three years from 9th June, 2006 at the licence fee of HK$1 for the whole licence period.

Mr. Tang Yat Sun, Richard and Mr. Cheng Ka On, Dominic are directors and shareholders of Miramar, the holding company of Contender. Mr. Yeung Ping Leung, Howard is a director of Miramar.

(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 Verbal and Mr. Yeung Ping Leung, Howard has a beneficial interest in Verbal.

Save as disclosed above, none of the Directors has any interests in contract or arrangement subsisting at the date of this circular which is significant in relation to the business of the Group as a whole.

***Interests in assets***

Save as disclosed in the paragraph headed "Interests in contract or arrangement" above, none of the Directors or expert named in the paragraph headed "Consent" in this appendix has any direct or indirect interest in any assets acquired or disposed of by or leased to any member of the Group or is proposed to be acquired or disposed of by or leased to any member of the Group since 31st March, 2006, being the date to which the latest published audited financial statements of the Company were made up.

***Service contracts***

There is no existing or proposed service contract between any member of the Group and any Director or proposed Director (excluding contracts expiring or determinable by the Group within one year without payment of compensation (other than statutory compensations)).

***Competing business***

Mr. Cheng Kar Shing, Peter 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.

Mr. Sin Nga Yan, Benedict is a director and the general manager 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. Tang Yat Sun, Richard is a director of Hang Seng Bank Limited ("Hang Seng"). The bullion trading, securities broking and money changer 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.

Save as disclosed above, none of the Directors has any interest in any business which competes or is likely to compete, either directly or indirectly, with the Group's business.

**LITIGATION**

On 8th March, 2006, KF Securities commenced legal action in the High Court of Hong Kong against Ching Chun Kuen, a former director of KF Securities, for, inter alia, damages for misappropriation of securities belonging to its clients with a market value as at the date of the action of about HK$25 million (as referred to in the Company's announcement of 7th March, 2006). KF Securities has obtained an injunction against the defendant restraining him from disposing of his assets in Hong Kong.

On 1st August, 2006, the defendant filed a petition to declare himself bankrupt. A bankruptcy order was made on 15th August, 2006 against the defendant. Due to the effect of the bankruptcy order, the proceedings have been stayed. The assets of the defendant have been vested with the Joint and Several Trustees, who have been appointed for investigation of his assets and recovery of them.

At the best estimates of the Directors, the aforesaid securities involved have a total market value of about HK$28,800,000. 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 for the year ended 31st March, 2006.

The matter and the legal proceedings against the defendant will not cause any material impact on the operation or financial position of the Group.

Save as disclosed above, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened against the Company or any of its subsidiaries.

**CONSENT**

Grant Thornton has given and has not withdrawn its written consent to the issue of this circular with copy of its letter and the references to its name included herein in the form and context in which they are respectively included.

**QUALIFICATION OF EXPERT**

The qualification of the expert who has given opinions in this circular is as follows:

| Name | Qualification |
|---|---|
| Grant Thornton | Certified Public Accountants |

## MATERIAL CONTRACTS

No contracts (not being contracts in the ordinary course of business) have been entered into by members of the Group within the two years preceding the date of this circular which are or may be material.

## GENERAL

(a) The secretary of the Company is Ms. Cheung Kit Man, Melina. She holds a bachelor degree in business administration from the Chinese University of Hong Kong and has over 23 years' experience in company secretarial work.

(b) The qualified accountant of the Company is Mr. Lee Kwok Wah, 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.

(c) The share registrar of the Company is Computershare Hong Kong Investor Services Limited, at 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong.

## DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection at the offices of Jennifer Cheung & Co. at Unit A, 19th Floor, Two Chinachem Plaza, 68 Connaught Road Central, Hong Kong during normal business hours up to and including 11th June, 2007:

(a) the Memorandum and Articles of Association of the Company;

(b) the annual reports of the Company for the two years ended 31st March, 2006 and the interim report of the Company for the six months ended 30th September, 2006;

(c) the letter of Grant Thornton on the unaudited pro forma financial information of the Group, the text of which is set out in Appendix II; and

(d) the written consent referred to in the paragraph headed "Consent" in this appendix.

# NOTICE OF EXTRAORDINARY GENERAL MEETING

king fook holdings limited
景福集團有限公司

*(Incorporated in Hong Kong with limited liability)*
**(Stock Code: 280)**

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the abovementioned company (the "Company") will be held at Tsui Hang Village Restaurant, 2nd Floor, New World Tower, 16-18 Queen's Road Central, Hong Kong on 15th June, 2007 at 4:30 p.m. for the purpose of considering and, if thought fit, passing the following resolution as an ordinary resolution:

**ORDINARY RESOLUTION**

"THAT the disposal of up to 1,874,000 shares of HK$1 each of Hong Kong Exchanges and Clearing Limited owned by King Fook Securities Company Limited, a wholly owned subsidiary of the Company, to purchasers (who and whose ultimate beneficial owners are independent and not connected with the Company, any directors, chief executive officer or substantial shareholders of the Company or any of its subsidiaries or their respective associates) at prevailing market prices on-market through The Stock Exchange of Hong Kong Limited within a period of one year from 16th June, 2007 and on such terms and conditions as may be determined by the directors of the Company from time to time be and is herby approved and that the directors of the Company be and are hereby authorised to implement the same."

By Order of the Board
**Cheung Kit Man, Melina**
*Company Secretary*

Hong Kong, 29th May, 2007

Registered office:
9th Floor
King Fook Building
30-32 Des Voeux Road Central
Hong Kong

*Notes:*

1. A member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint not more than two proxies (except a member who is a clearing house or its nominee may appoint more than two proxies) to attend and vote in his stead. A proxy need not be a member of the Company.

2. A form of proxy for the meeting is enclosed. In order to be valid the form of proxy must be deposited at the Company's registered office together with a power of attorney or other authority, if any, under which it is signed or a notarially certified copy of that power of attorney or authority, not less than 48 hours before the time for holding the meeting or adjourned meeting.