

Notes to the Accounts

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investments in securities are stated at fair value.

In the current year, the Group adopted the revised Statement of Standard Accounting Practice ("SSAP") 12 "Income Taxes" issued by the HKSA which is effective for accounting periods commencing on or after 1st January 2003. The adoption of this revised SSAP had no material effect on the Group's accounts for the current and previous years.

(b) Basis of consolidation

The group accounts include the accounts of the Company and its subsidiaries made up to 31st March.

The group accounts also include the Group's share of the results for the year, and of the net assets of its jointly controlled entity.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill/negative goodwill or goodwill/negative goodwill taken to reserves which was not previously charged or recognised in the consolidated profit and loss account.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(c) Subsidiaries

Subsidiaries are those entities in which the Group controls the composition of the board of directors, controls more than half of the voting power or holds more than half of the issued share capital.

The Company's investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

The Company's investments in jointly controlled entities are stated at cost less provision for impairment losses. The results of jointly controlled entities are accounted for by the Company on the basis of dividend income.

(e) Goodwill/negative goodwill

Goodwill/negative goodwill on acquisition of subsidiaries/associated companies/jointly controlled entities occurring on or after 1st April, 2001 is included as intangible assets and is amortised over its estimated useful life in accordance with the provisions of SSAP 30. For acquisitions prior to 1st April, 2001, goodwill/negative goodwill was written off against/taken directly to reserves on acquisition. The Group has taken advantage of the transitional provisions in SSAP 30 and such goodwill/negative goodwill has not been retroactively restated. However, any impairment arising on such goodwill is accounted for in accordance with SSAP 31.

(f) Income recognition

The Group recognises income 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.

Notes to the Accounts (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses.

Leasehold land is depreciated over the remaining period of the lease while other fixed assets are depreciated at rates sufficient to write off their costs less accumulated impairment losses over their estimated useful lives on a straight-line basis at the following annual rates:

Buildings	2%–2.5%
Leasehold improvements	15% or over the remaining period of the leases, whichever is shorter
Furniture and equipment	15%
Other fixed assets	15%

Improvements are capitalised and depreciated over their expected useful lives to the Group.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the fixed asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset and is recognised in the profit and loss account.

(h) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payment obligations in respect of operating leases on properties with fixed rentals are accounted for on a straight-line basis over the periods of the respective leases; payment obligations in respect of operating leases on properties with rentals which vary with gross revenue of the Group are charged to the profit and loss account as incurred.

(i) Stocks

Stocks, 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 hedged on a daily basis through the use of gold loans (see note 1(l) below) or spot contracts with independent third parties. Gold stocks are stated at market price prevailing at the close of business on the balance sheet date.

(j) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision.

1. PRINCIPAL ACCOUNTING POLICIES (Continued)**(k) Investments in securities****(i) Non-trading investments**

Non-trading investments are stated at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities which are unlisted and not actively traded, fair value is determined with reference to recent transaction prices and estimated net realisable value. Changes in the fair value of individual investments are credited or debited to the investments revaluation reserve until the investment is sold or is determined to be impaired.

Upon the disposal of an investment, the cumulative gain or loss, representing the difference between the net sales proceeds and the carrying amount of the relevant investment, together with any surplus/deficit transferred from the investments revaluation reserve, is dealt with in the profit and loss account.

Individual investments are reviewed regularly to determine whether they are impaired. When an investment is considered to be impaired, the cumulative loss recorded in the revaluation reserve is taken to the profit and loss account.

(ii) Trading investments

Trading investments are carried at fair value at the balance sheet date. Fair value represents the quoted market price for securities which are listed or actively traded in a liquid market. For securities which are unlisted and not actively traded, fair value is determined with reference to recent transaction prices and estimated net realisable value.

At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments are recognised in the profit and loss account. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(l) Gold loans

Gold loans are stated at the gold price prevailing at the close of business on the balance sheet date. Profits and losses arising therefrom are dealt with in the profit and loss account.

(m) Translation of foreign currencies

Transactions in foreign currencies are translated into Hong Kong dollars at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated into Hong Kong dollars at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries and jointly controlled entities expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Notes to the Accounts (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. This is a change in accounting policy, however, the comparative figures have not been restated as the effect of this change is not material to the accounts.

(o) 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.

(p) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks and bank overdrafts.

Notes to the Accounts (Continued)

1. PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) 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 as the secondary reporting format.

Unallocated results mainly represent dividend income from investments in securities and the gain or loss from investments in securities less corporate expenses. Segment assets consist primarily of fixed assets, 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 fixed assets, including additions resulting from acquisitions through purchases of subsidiaries.

2. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in gold ornament, jewellery, watch and gift retailing, bullion trading, securities broking and diamond wholesaling. Turnover recognised during the year comprises the following:

	2004 HK\$'000	2003 HK\$'000
Gold ornament, jewellery, watch and gift retailing	561,338	515,660
Bullion trading	24,947	30,085
Commission from securities broking	9,581	4,804
Diamond wholesaling	<u>16,199</u>	<u>16,236</u>
	<u><u>612,065</u></u>	<u><u>566,785</u></u>

Primary reporting format — business segments

The Group is organised into three main business segments:

- (i) Retailing and bullion trading
- (ii) Securities broking
- (iii) Diamond wholesaling

Notes to the Accounts (Continued)

2. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Retailing and bullion trading 2004 HK\$'000	Securities broking 2004 HK\$'000	Diamond wholesaling 2004 HK\$'000	Group 2004 HK\$'000
Turnover	586,285	9,581	16,199	612,065
Segment results	39,940	8,832	2,300	51,072
Unallocated results				(22,321)
Operating profit before finance costs				28,751
Finance costs				(4,253)
Operating profit				24,498
Share of profit of a jointly controlled entity	134			134
Profit before taxation				24,632
Taxation				(126)
Profit after taxation				24,506
Minority interests				30
Profit attributable to shareholders				24,536
Segment assets	540,601	67,277	15,248	623,126
Investment in a jointly controlled entity	4,853			4,853
Unallocated assets				95,835
Total assets				723,814
Segment liabilities	32,445	40,248	2,663	75,356
Unallocated liabilities				156,478
Minority interests				349
Total liabilities				232,183
Capital expenditure				
Additions of fixed assets				
— segment	9,842	162	443	10,447
— unallocated				1,907
Additions of fixed assets through acquisition of a subsidiary				4
Amortisation of goodwill				363
Depreciation				
— segment	5,524	793	161	6,478
— unallocated				938

Notes to the Accounts (Continued)

2. TURNOVER AND SEGMENT INFORMATION (Continued)

Primary reporting format — business segments (Continued)

	Retailing and bullion trading	Securities broking	Diamond wholesaling	Group
	2003	2003	2003	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	545,745	4,804	16,236	566,785
Segment results	21,796	(2,368)	1,514	20,942
Unallocated results				(42,256)
Operating loss before finance costs				(21,314)
Finance costs				(5,502)
Operating loss				(26,816)
Share of profit of a jointly controlled entity	96			96
Loss before taxation				(26,720)
Taxation				(161)
Loss after taxation				(26,881)
Minority interests				1
Loss attributable to shareholders				(26,880)
Segment assets	559,327	22,555	12,699	594,581
Investment in a jointly controlled entity	4,716			4,716
Unallocated assets				56,524
Total assets				655,821
Segment liabilities	35,147	11,245	3,092	49,484
Unallocated liabilities				167,171
Minority interests				379
Total liabilities				217,034
Capital expenditure				
Additions of fixed assets				
— segment	4,239	1,287	318	5,844
— unallocated				1,894
Additions of fixed assets through acquisition of a subsidiary				135
Amortisation of goodwill				50
Depreciation				
— segment	3,347	670	97	4,114
— unallocated				804
Impairment of non-trading investments				20,227

Secondary reporting format — geographical segments

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

Notes to the Accounts (Continued)

3. OPERATING PROFIT/LOSS BEFORE FINANCE COSTS

Operating profit/loss before finance costs is stated after crediting and charging the following:

	2004 HK\$'000	2003 HK\$'000
<i>Crediting</i>		
Dividend income from listed investments	7,986	1,344
Interest income	548	756
Gain on disposal of fixed assets	13,922	—
Net realised and unrealised gains on trading listed investments	4,850	—
Gain on disposal of non-trading listed investments	523	—
Rental income less outgoings		
— owned land and buildings	537	519
— operating subleases	1,508	1,689
	<u> </u>	<u> </u>

Charging

Amortisation of goodwill	363	50
Auditors' remuneration		
— provision for current year	996	900
— over provision in prior years	—	(195)
Cost of stocks sold	474,248	446,676
Depreciation of fixed assets	7,416	4,918
Loss on disposal of fixed assets	—	583
Net realised and unrealised losses on trading listed investments	—	44
Operating leases — land and buildings	36,723	36,079
Provision for bad debts	2,411	292
Provision for and write down of stocks	2,811	1,967
	<u> </u>	<u> </u>

4. STAFF COSTS

	2004 HK\$'000	2003 HK\$'000
Wages, salaries and allowances	42,389	39,684
Pension costs — defined contribution retirement schemes*	2,416	2,429
Write back of provision for long service payments (note 24)	(600)	(320)
	<u> </u>	<u> </u>
	<u>44,205</u>	<u>41,793</u>

Staff costs 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, 2004 and 2003 have been credited to the employers' balance in respect of the remaining members' accounts.

Notes to the Accounts (Continued)

5. FINANCE COSTS

	2004 HK\$'000	2003 HK\$'000
Interest on		
— bank loans and overdrafts	3,667	4,754
— gold loans	215	269
— loan from a director	371	479
	<u>4,253</u>	<u>5,502</u>

6. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit for the year. In 2003, the Government of the Hong Kong Special Administrative Region enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

The amount of taxation charged to the consolidated profit and loss account represents:

	2004 HK\$'000	2003 HK\$'000
Hong Kong profits tax	86	161
Under provision in prior years	40	—
	<u>126</u>	<u>161</u>

The taxation on the Group's profit/(loss) before taxation differs from the theoretical amount that would arise using the profits tax rate of Hong Kong, the home country of the Company, as follows:

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	24,632	(26,720)
Calculated at a taxation rate of 17.5% (2003: 16%)	4,311	(4,275)
Effect of different taxation rates in other countries	(151)	3,215
Income not subject to taxation	(3,850)	(230)
Expenses not deductible for taxation purposes	945	499
Temporary differences not recognised	125	(90)
Tax losses not recognised	1,720	1,485
Recognition of previously unrecognised temporary differences	31	—
Utilisation of previously unrecognised tax losses	(3,045)	(443)
Under provision in prior years	40	—
Taxation charge	<u>126</u>	<u>161</u>

7. PROFIT/LOSS ATTRIBUTABLE TO SHAREHOLDERS

The profit/loss attributable to shareholders includes a profit of HK\$4,349,000 (2003: a loss of HK\$9,046,000) which is dealt with in the accounts of the Company.

Notes to the Accounts (Continued)

8. DIVIDEND

	2004 HK\$'000	2003 HK\$'000
Final, proposed, of HK0.5 cent (2003: Nil) per ordinary share	<u>2,175</u>	<u>—</u>

At a meeting held on 9th July, 2004, the directors proposed a final dividend of HK0.5 cent per ordinary share. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March, 2005.

9. EARNINGS/LOSS PER SHARE

The calculation of earnings/loss per share is based on the Group's profit attributable to shareholders of HK\$24,536,000 (2003: loss attributable to shareholders of HK\$26,880,000) and the total number of 435,071,650 (2003: 435,071,650) ordinary shares in issue during the year.

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' remuneration

The aggregate amounts of emoluments paid and payable to the directors of the Company during the year are as follows:

	2004 HK\$'000	2003 HK\$'000
Fees	150	150
Salaries, allowances, benefits in kind and other emoluments	638	558
Pension costs — defined contribution retirement schemes	<u>30</u>	<u>28</u>
	<u>818</u>	<u>736</u>

The emoluments were paid to the directors as follows:

Emolument bands	Number of directors	
	2004	2003
HK\$Nil — HK\$1,000,000	<u>11</u>	<u>11</u>

None of the directors has waived or agreed to waive any emoluments in respect of the year ended 31st March, 2004 (2003: Nil).

Directors' fees disclosed above include HK\$32,000 (2003: HK\$32,000) paid and payable to independent non-executive directors.

Notes to the Accounts (Continued)

10. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (Continued)

(b) Five highest paid individuals

None of the directors is among the Group's five highest paid individuals. Details of emoluments of the five (2003: five) highest paid individuals are as follows:

	2004 HK\$'000	2003 HK\$'000
Salaries, allowances and benefits in kind	2,645	2,327
Pension costs — defined contribution retirement schemes	<u>161</u>	<u>107</u>
	<u>2,806</u>	<u>2,434</u>
	Number of individuals	
	2004	2003
Emolument bands		
HK\$Nil — HK\$1,000,000	<u>5</u>	<u>5</u>

11. GOODWILL

	Group	
	2004 HK\$'000	2003 HK\$'000
Net book value at the beginning of the year	454	—
Acquisition of a subsidiary (note 25(b))	1,570	504
Amortisation charge (note 3)	<u>(363)</u>	<u>(50)</u>
Net book value at the end of the year	<u>1,661</u>	<u>454</u>
At the end of the year		
Cost	2,074	504
Accumulated amortisation	<u>(413)</u>	<u>(50)</u>
Net book value	<u>1,661</u>	<u>454</u>

Notes to the Accounts (Continued)

12. FIXED ASSETS

Group

	Leasehold land and buildings HK\$'000	Leasehold improvements, furniture and equipment HK\$'000	Other fixed assets HK\$'000	Total HK\$'000
Cost				
At 1st April, 2003	36,967	49,930	4,098	90,995
Additions	—	12,354	—	12,354
Acquisition of a subsidiary (note 25(b))	—	4	—	4
Disposals/write off	(22,472)	(15,292)	—	(37,764)
At 31st March, 2004	14,495	46,996	4,098	65,589
Accumulated depreciation and impairment losses				
At 1st April, 2003	10,559	38,891	3,080	52,530
Charge for the year	657	6,344	415	7,416
Disposals/write off	(6,404)	(15,292)	—	(21,696)
At 31st March, 2004	4,812	29,943	3,495	38,250
Net book value				
At 31st March, 2004	9,683	17,053	603	27,339
At 31st March, 2003	26,408	11,039	1,018	38,465

The Group's interests in leasehold land and buildings at their net book values are analysed as follows:

	2004 HK\$'000	2003 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	1,203	17,647
Leases of between 10 to 50 years	8,480	8,761
	9,683	26,408

Notes to the Accounts (Continued)

12. FIXED ASSETS (Continued)

Company

	Leasehold land and buildings HK\$'000	Leasehold improvements, furniture and equipment HK\$'000	Total HK\$'000
Cost			
At 1st April, 2003	1,603	12,725	14,328
Additions	—	1,589	1,589
At 31st March, 2004	1,603	14,314	15,917
Accumulated depreciation			
At 1st April, 2003	360	9,837	10,197
Charge for the year	40	795	835
At 31st March, 2004	400	10,632	11,032
Net book value			
At 31st March, 2004	1,203	3,682	4,885
At 31st March, 2003	1,243	2,888	4,131

The Company's leasehold land and buildings are all situated in Hong Kong and held on leases of over 50 years.

13. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	127,926	126,600
Less: provision for impairment losses	(5,141)	(5,242)
	122,785	121,358
Amounts due from subsidiaries less provision	487,701	508,586
	610,486	629,944
Amounts due to subsidiaries	(173,666)	(179,773)
	436,820	450,171

Notes to the Accounts (Continued)

13. INVESTMENTS IN SUBSIDIARIES (Continued)

The amounts due from/to subsidiaries are unsecured, interest free except for receivables of HK\$131,687,000 (2003: HK\$140,000,000) and payables of HK\$8,846,000 (2003: HK\$90,368,000) which bear interest at rates ranging from 1.0875% to 3.25% (2003: 1.5% to 3.7188%) per annum, and have no fixed terms of repayment.

Details of the principal subsidiaries as at 31st March, 2004 are as follows:

Name	Particulars of issued share/ registered capital	Percentage of equity interest held by		Principal activities
		Group	Company	
Incorporated and operating in Hong Kong:				
Evermind Limited	10,000 ordinary shares of HK\$1 each	80	80	Investment holding
King Fook China Resources Limited	2 ordinary shares of HK\$10 each	100	100	Investment holding
King Fook Gold & Jewellery Company Limited	546,750 ordinary shares of HK\$100 each	100	100	Investment holding and trading
King Fook Jewellery Group Limited	600,000 ordinary shares of HK\$100 each	100	100	Gold ornament, jewellery and watch retailing and bullion trading
King Fook Investment Company Limited	2,500,000 ordinary shares of HK\$1 each	100	100	Investment holding
King Fook Securities Company Limited	10,000,000 ordinary shares of HK\$1 each	100	—	Securities broking
Perfectrade Limited*	2,000 ordinary shares of HK\$1 each	80	—	Provision of interior design services
Superior Travellers Services Limited*	2 ordinary shares of HK\$1 each	100	100	Provision of marketing services for sale of travel related products
Trade Vantage Holdings Limited	2 ordinary shares of HK\$1 each	100	—	Jewellery and watch retailing
Young's Diamond Corporation (International) Limited	100,000 ordinary shares of HK\$100 each	97.8	97.8	Diamond wholesaling

Notes to the Accounts (Continued)

13. INVESTMENTS IN SUBSIDIARIES (Continued)

Name	Particulars of issued share/ registered capital	Percentage of equity interest held by		Principal activities
		Group	Company	
Established and operating in the People's Republic of China:				
Young's Diamond Corporation (Shanghai) Limited#	US\$200,000	100	100	Diamond wholesaling
King Fook (Shanghai) International Trading Limited*#	US\$200,000	100	—	Jewellery trading
Incorporated in British Virgin Islands and operating in Hong Kong:				
Metal Innovation Limited	1 ordinary share of US\$1 each	80	—	Design and metalising
Incorporated and operating in British Virgin Islands:				
Most Worth Investments Limited	100 ordinary shares of US\$1 each	100	100	Investment holding

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

* Companies incorporated/established/acquired during the year ended 31st March, 2004.

Notes to the Accounts (Continued)

14. INVESTMENT IN A JOINTLY CONTROLLED ENTITY

	Group	
	2004	2003
	HK\$'000	HK\$'000
Share of net assets	4,853	4,690
Amount due from a jointly controlled entity	<u>—</u>	<u>26</u>
	<u>4,853</u>	<u>4,716</u>

Details of the jointly controlled entity, established and operating in the People's Republic of China ("PRC") and held indirectly by the Company, as at 31st March, 2004 are as follows:

Name	Principal activity
Shandong Tarzan King Fook Precious Metal Refinery Co. Ltd.*	Gold refining and assaying

* 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.

Pursuant to the joint venture agreement dated 25th January, 2002, the Group established a jointly controlled entity in the PRC with a PRC company. 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.

The amount due from a jointly controlled entity was unsecured, interest free and had no fixed terms of repayment.

15. NON-TRADING INVESTMENTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Equity securities, at market value		
Listed in Hong Kong	42,652	21,198
Listed outside Hong Kong*	<u>11,892</u>	<u>5,394</u>
	<u>54,544</u>	<u>26,592</u>

* As at 31st March, 2004, 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 38.06% and 7.29% equity interests in that company respectively.

Notes to the Accounts (Continued)

16. OTHER ASSETS

	Group	
	2004 HK\$'000	2003 HK\$'000
Statutory deposits	<u>2,105</u>	<u>2,200</u>

17. STOCKS

	Group	
	2004 HK\$'000	2003 HK\$'000
Jewellery	188,211	208,515
Gold ornament and bullion	28,080	28,040
Watches and gift	<u>280,451</u>	<u>270,545</u>
	<u>496,742</u>	<u>507,100</u>

At 31st March, 2004, the carrying amount of stocks that are carried at net realisable value amounted to HK\$48,669,000 (2003: HK\$58,456,000).

18. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade debtors	58,410	21,024	—	—
Deposits and prepayments	9,466	8,234	674	903
Other receivables	<u>22,086</u>	<u>11,997</u>	<u>9,225</u>	<u>1,510</u>
	<u>89,962</u>	<u>41,255</u>	<u>9,899</u>	<u>2,413</u>

Notes to the Accounts (Continued)

18. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	54,395	18,058
31 – 90 days	2,432	531
More than 90 days	<u>1,583</u>	<u>2,435</u>
	<u><u>58,410</u></u>	<u><u>21,024</u></u>

The trade debtors as at the year end mainly consist of receivables of the securities broking business amounting to HK\$46,363,000 (2003: HK\$12,047,000), 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.

19. TRADING INVESTMENTS

	Group	
	2004 HK\$'000	2003 HK\$'000
Equity securities, at market value Listed in Hong Kong	<u>11,658</u>	<u>9,395</u>

20. CREDITORS AND ACCRUALS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Trade payables	48,801	24,238	—	—
Other payables and accruals	19,529	12,900	5,293	4,206
Deposits received	<u>5,085</u>	<u>4,586</u>	<u>16</u>	<u>24</u>
	<u><u>73,415</u></u>	<u><u>41,724</u></u>	<u><u>5,309</u></u>	<u><u>4,230</u></u>

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

	Group	
	2004 HK\$'000	2003 HK\$'000
Within 30 days	<u>48,801</u>	<u>24,238</u>

Notes to the Accounts (Continued)

21. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
620,000,000 ordinary shares of HK\$0.25 each	<u>155,000</u>	<u>155,000</u>
<i>Issued and fully paid:</i>		
435,071,650 ordinary shares of HK\$0.25 each	<u>108,768</u>	<u>108,768</u>

22. RESERVES

Company

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2003	17,575	173,411	190,986
Profit for the year	<u>—</u>	<u>4,349</u>	<u>4,349</u>
At 31st March, 2004	<u>17,575</u>	<u>177,760</u>	<u>195,335</u>
<i>Representing:</i>			
Proposed final dividend		2,175	
Others		<u>175,585</u>	
Retained profits as at 31st March, 2004		<u>177,760</u>	
At 1st April, 2002	17,575	182,457	200,032
Loss for the year	<u>—</u>	<u>(9,046)</u>	<u>(9,046)</u>
At 31st March, 2003	<u>17,575</u>	<u>173,411</u>	<u>190,986</u>

Notes to the Accounts (Continued)

23. LONG TERM BANK LOANS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Long term bank loans, unsecured	60,000	60,000	60,000	60,000
Less: Current portion of long term bank loans included in current liabilities	(40,000)	—	(40,000)	—
	<u>20,000</u>	<u>60,000</u>	<u>20,000</u>	<u>60,000</u>

The bank loans are repayable as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Within one year	40,000	—	40,000	—
In the second year	—	60,000	—	60,000
In the third to fifth year	20,000	—	20,000	—
	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>	<u>60,000</u>

24. PROVISION FOR LONG SERVICE PAYMENTS

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At the beginning of the year	1,387	1,854	1,216	1,656
Payments	(81)	(147)	(81)	(40)
Write back (note 4)	(600)	(320)	(600)	(400)
Transfer to a subsidiary	—	—	(285)	—
At the end of the year	<u>706</u>	<u>1,387</u>	<u>250</u>	<u>1,216</u>

The balances as at 31st March, 2004 and 2003 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.

Notes to the Accounts (Continued)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit/loss before taxation to net cash outflow from operations

	2004 HK\$'000	2003 HK\$'000
Profit/(loss) before taxation	24,632	(26,720)
Amortisation of goodwill	363	50
Depreciation	7,416	4,918
Dividend income	(7,986)	(1,344)
Exchange differences	32	(21)
(Gain)/loss on disposal of fixed assets	(13,922)	583
Impairment of non-trading investments	—	20,227
Interest expense	4,253	5,502
Interest income	(548)	(756)
Gain on disposal of non-trading listed investments	(523)	—
Net realised and unrealised (gains)/losses on trading listed investments	(4,850)	44
Provision for bad debts	2,411	292
Provision for and write down of stocks	2,811	1,967
Share of profit of a jointly controlled entity	(134)	(96)
	<u>13,955</u>	<u>4,646</u>
Operating profit before working capital changes	13,955	4,646
Decrease/(increase) in amount due from a jointly controlled entity	26	(26)
Decrease/(increase) in stocks	7,547	(13,883)
(Increase)/decrease in debtors, deposits and prepayments	(50,595)	10,599
Increase in creditors and accruals	28,892	7,422
Decrease in gold loans	(1,959)	(22,034)
Decrease in provision for long service payments	(681)	(467)
	<u>(2,815)</u>	<u>(13,743)</u>
Net cash outflow from operations	<u>(2,815)</u>	<u>(13,743)</u>

(b) Acquisition of a subsidiary

	2004 HK\$'000	2003 HK\$'000
Net assets acquired:		
Fixed assets	4	135
Debtors, deposits and prepayments	523	597
Bank balances and cash	702	—
Creditors and accruals	(2,799)	(736)
	<u>(1,570)</u>	<u>(4)</u>
Goodwill arising on acquisition (note 11)	1,570	504
	<u>—</u>	<u>500</u>
Consideration and acquisition costs	<u>—</u>	<u>500</u>

The above acquisition is satisfied by cash consideration of HK\$1 (2003: HK\$500,000).

Notes to the Accounts (Continued)

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Acquisition of a subsidiary (Continued)

An analysis of the net inflow/outflow of cash and cash equivalents in respect of the acquisition of a subsidiary is as follows:

	2004 HK\$'000	2003 HK\$'000
Cash consideration	—	(500)
Cash and cash equivalents acquired	<u>702</u>	<u>—</u>
Net cash inflow/(outflow) in respect of the acquisition of a subsidiary	<u><u>702</u></u>	<u><u>(500)</u></u>

26. DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 16%).

The movement on the deferred taxation account is as follows:

	2004 HK\$'000	2003 HK\$'000
At the beginning and the end of the year	<u>—</u>	<u>—</u>

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	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
At the beginning of the year	635	469	(635)	(469)	—	—
Charged/(credited) to profit and loss account	<u>566</u>	<u>166</u>	<u>(566)</u>	<u>(166)</u>	<u>—</u>	<u>—</u>
At the end of the year	<u><u>1,201</u></u>	<u><u>635</u></u>	<u><u>(1,201)</u></u>	<u><u>(635)</u></u>	<u><u>—</u></u>	<u><u>—</u></u>

Deferred income tax assets are recognised for tax loss carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group and the Company have unrecognised tax losses of HK\$86,139,000 (2003: HK\$90,935,000) and HK\$2,381,000 (2003: HK\$2,048,000) respectively to carry forward against future taxable income and these tax losses have no expiry date.

Notes to the Accounts (Continued)

27. COMMITMENTS

(a) Capital commitments for purchase of fixed assets

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Contracted but not provided for	<u>424</u>	<u>882</u>	<u>424</u>	<u>882</u>

(b) Commitments under operating leases

At 31st March, the Group/Company had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	33,605	33,754	684	366
Later than one year and not later than five years	<u>25,661</u>	<u>9,392</u>	<u>256</u>	<u>228</u>
	<u>59,266</u>	<u>43,146</u>	<u>940</u>	<u>594</u>

At 31st March, 2004, the Group had total future minimum sublease payments expected to be received under non-cancellable subleases amounting to HK\$412,500 (2003: HK\$770,000).

(c) Future rental receivables

At 31st March, the Group/Company had future aggregate minimum lease rental receivables under non-cancellable operating leases in respect of the Group's land and buildings as follows:

	Group		Company	
	2004 HK\$'000	2003 HK\$'000	2004 HK\$'000	2003 HK\$'000
Not later than one year	826	1,096	72	84
Later than one year and not later than five years	<u>147</u>	<u>50</u>	<u>—</u>	<u>—</u>
	<u>973</u>	<u>1,146</u>	<u>72</u>	<u>84</u>

Notes to the Accounts (Continued)

28. RELATED PARTY TRANSACTIONS

The following is a summary of significant related party transactions, in addition to those disclosed elsewhere in the accounts, which were carried out in the normal course of the Group's business during the year:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Operating lease rentals on land and buildings paid to related companies:		
Stanwick Properties Limited (note a)	5,465	4,720
Contender Limited (note b)	11,180	13,414
Consultancy fees paid to related companies (note c)	2,154	1,440
Interest expense paid to a director (note d)	371	479
	<u>371</u>	<u>479</u>

- (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, 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 subsidiary on the ground and first floors of Miramar Hotel. Mr. Tang Yat Sun, Richard, Dr. Ho Tim, Dr. Sin Wai Kin and Mr. Cheng Ka On, Dominic are directors of the Company and 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 for the year ended 31st March, 2004 at fees totalling HK\$1,530,000 (2003: HK\$1,440,000). 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.

Metal Innovation Limited, a subsidiary of the Group, has entered into a marketing consultancy agreement with Mempro S.A., a subsidiary of Mempro Limited, whereby Mempro S.A. provides marketing consultancy services to Metal Innovation Limited for the year ended 31st March, 2004 at fees totalling HK\$624,000. Mempro Limited was wholly owned by a director of the Company prior the Group's acquisition of 75% of its issued share capital from such director on 29th March, 2004.

- (d) The Group has borrowed an unsecured short term loan of HK\$15,000,000 (2003: HK\$20,000,000) from a director of the Company. The loan is repayable on demand. Interest was charged on the loan at 1.5% (2003: 2% to 2.5%) per annum.

29. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 9th July, 2004.