

Management Commentary

The directors are pleased to present the Group's interim report and condensed accounts for the six months ended 30th September, 2004. The consolidated profit and loss account, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30th September, 2004, and the consolidated balance sheet as at 30th September, 2004 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 7 to 20 of this report.

Interim dividend

The directors have resolved the payment of an interim dividend of HK0.4 cent per ordinary share in respect of the year ending 31st March, 2005 (2004: Nil), payable to all shareholders whose names appear on the register of members of the Company on 12th January, 2005. The interim dividend will be paid on or about 21st January, 2005.

Closure of register of members

The register of members of the Company will be closed from 10th January, 2005 to 12th January, 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers accompanied by the relevant share certificates must be lodged with the Company's Registrars, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, no later than 4:00 p.m. on Friday, 7th January, 2005.

Business review and prospects

The Group's unaudited profit attributable to shareholders for the six months ended 30th September, 2004 was HK\$5,778,000. The Group's turnover for the period increased by 25% as compared with the same period for the previous year. The increase in turnover was mainly due to growth in retail sales of gold ornaments, jewellery, watches and gifts. The Group benefited from improved local consumer sentiment as a result of better economical environment such as recovery of the property market and diminishing deflation. The increase in tourists from the People's Republic of China (the "PRC") as the Government of the PRC relaxed restrictions on individual travellers to Hong Kong also helped to boost the Group's sales. However, commission income from the securities broking division of the Group decreased by 15% during the period, which was mainly due to the severe competition within the industry as a result of the introduction of on-line brokerage services by many banks in Hong Kong.

Management Commentary *(continued)*

Business review and prospects *(continued)*

During the period under review, the Group launched a new branded diamond product of "4 in 1" with special design at competitive prices, which has been successfully launched with positive response. In order to provide quality customer services, the management continued to upgrade its frontline staff quality by providing training programs in both customer services and language. The overall efficiency in operation of the Group improved as a result of effective management control. On the financial side, the overall debt to equity ratio continues to be at a healthy level.

Looking forward, the Group plans to explore the PRC retail market in respect of gold ornaments, jewellery, watches and gifts. As the first step, the Group had set up a wholly owned subsidiary company, King Fook Jewellery (China) Company, Limited, in the PRC under the Hong Kong Closer Economic Partnership Arrangement in October 2004 to engage in such business.

Barring any unforeseeable circumstances, the Group is optimistic of the results in the second half of the financial year ending 31st March, 2005. The management will continue to seek opportunity to diversify its activities into other business operations to generate more stable income.

Investments

As at 30th September, 2004, the Group held 2,554,000 shares in Hong Kong Exchanges and Clearing Limited amounting to HK\$45,334,000. The Group also held non-trading investments listed outside Hong Kong amounting to HK\$10,709,000, which is a related party of the Group (note 9).

Finance

As at 30th September, 2004, the Group's current assets and current liabilities were HK\$649 million and HK\$153 million respectively. There were bank balances and cash of HK\$26 million and unsecured bank loans and overdrafts of HK\$160 million.

Based on the total borrowings of HK\$186 million and the shareholders' funds of HK\$495 million of the Group, the overall borrowings to equity ratio was 37%, which was at a healthy level.

Management Commentary (*continued*)

Employees

As at 30th September, 2004, the Group had approximately 250 employees. The employees are remunerated according to the nature of their jobs and are entitled to an incentive bonus based on their performance.

Purchase, sale or redemption of shares

The Company has not redeemed any of its shares during the period.

Neither the Company nor any of its subsidiaries has purchased or sold any of the Company's shares during the period.

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations

At 30th September, 2004, the interests of the directors and chief executive of the Company in the issued share capital of the Company as recorded in the register maintained by the Company under section 352 of Part XV of the Securities and Futures Ordinance (the "SFO") or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transaction by Directors of Listed Companies were as follows:

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

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

At no time during the period did the directors and chief executive of the Company (including their respective spouses and children under 18 years of age) have any interests in, or had been granted, or exercised, any rights to subscribe for shares of the Company or any of its associated corporations (within the meaning of the SFO).

Management Commentary *(continued)*

Directors' and chief executive's interests and short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations *(continued)*

At no time during the period was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of the SFO).

Save as disclosed above, as at 30th September, 2004, none of the directors or chief executive of the Company had any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Substantial shareholders

At 30th September, 2004, the following persons (other than a director or chief executive of the Company) had interests, being 5% or more of the issued share capital of the Company, as recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO:

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

Notes:

- (a) 186,985,035 shares are beneficially owned by Yeung Chi Shing Estates Limited while 6,160,020 shares are of its corporate interest.
- (b) 28,122,000 shares are beneficially owned by Miramar Hotel and Investment Company, Limited while 31,294,000 shares are of its corporate interest.

Management Commentary (*continued*)

Share option scheme

On 27th August, 2004, the Company adopted a share option scheme under which the directors may grant options to eligible persons, including employees and directors of the Group, to subscribe for shares of the Company. The Company has not granted any option under such scheme since its adoption.

The Company did not grant any right to subscribe for equity or debt securities of the Company to any director or chief executive of the Company or to the spouse or children under 18 years of age of any such director or chief executive under the share option scheme or otherwise as at 30th September, 2004.

Compliance with the Code of Best Practice of the Listing Rules

None of the directors of the Company is aware of any information which would reasonably indicate that the Company is not, or was not, in compliance with the Code of Best Practice as set out in Appendix 14 of the Listing Rules of the Stock Exchange at any time during the six months ended 30th September, 2004 except that the independent non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and re-election in annual general meetings of the Company in accordance with the Company's Articles of Association.

Audit committee and review by auditors

The Company has established an audit committee comprising three non-executive directors, two of whom are independent. It was set up with written terms of reference in compliance with the rules set out in "A Guide for the Formation of An Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants.

At the request of the directors, the Group's external auditors have carried out a review of the interim accounts in accordance with Statement of Auditing Standards 700 issued by the Hong Kong Institute of Certified Public Accountants.

The audit committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters, including the interim report and the results of the review of the unaudited interim accounts by the external auditors.