

# Management Commentary

The Board of Directors of King Fook Holdings Limited (the "Company") are pleased to present the interim report and condensed accounts of the Company and its subsidiaries (the "Group") for the six months ended 30th September, 2005. The consolidated income statement, consolidated cash flow statement and consolidated statement of changes in equity of the Group for the six months ended 30th September, 2005, and the consolidated balance sheet as at 30th September, 2005 of the Group, all of which are unaudited and condensed, along with selected explanatory notes, are set out on pages 8 to 24 of this report.

## **Interim dividend**

The directors have resolved the payment of an interim dividend of HK0.45 cent per ordinary share in respect of the year ending 31st March, 2006 (2005: HK0.4 cent), payable to all shareholders whose names appear on the register of members of the Company on 5th January, 2006. The interim dividend will be paid on or about 13th January, 2006.

## **Closure of register of members**

The register of members of the Company will be closed from 3rd January, 2006 to 5th January, 2006, both dates 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, 30th December, 2005.

## **Business review and prospects**

The Group's unaudited profit attributable to equity holders of the Company for the six months ended 30th September, 2005 was approximately HK\$5,888,000. The Group's overall turnover for the period increased by 8% as compared with the same period for the previous year. The increase in turnover was mainly due to the growth in the retail sales of gold ornaments, jewellery, watches and gifts. The Group benefited from improved local consumer sentiment as a result of a better macro economic climate in Hong Kong such as rebound of the property market and the improving employment rate. However, due to severe competition within the industry and the stagnant stock market, commission income from the securities broking division of the Group for the period under review decreased by 5%.

During the period under review, turnover of the retail business of the Group increased by 9% as compared with the same period for the previous year. Hong Kong Disneyland opened on 12th September, 2005, but the Disney effect was insignificant to the retail sector of Hong Kong and its contribution to the Group was minimal. During the period, the Group opened its first outlet of "Masterpiece by King Fook" in Shanghai through a wholly owned subsidiary company, King Fook Jewellery (China) Company Limited, which aims at high end customers.

# Management Commentary (*continued*)

## **Business review and prospects** (*continued*)

Looking forward, the increasing rental payments and staff costs in Hong Kong are the two imminent unfavourable operating factors for the Group in the coming year. The management will try to improve the overall performance of the Group by introducing various marketing policies and sales measures. The management will also explore and introduce more international branded jewellery to Hong Kong. In this regard, the Group has obtained the sole dealership rights in Hong Kong for the Italian fine jewellery of "Palmiero". Moreover, the management will explore retail markets in respect of gold ornaments, jewellery, watches and gifts retailing in major cities of the PRC.

## **Investments**

As at 30th September, 2005, the Group held available-for-sale investments of 2,554,000 shares in Hong Kong Exchanges and Clearing Limited with a market value of HK\$67,809,000. The Group also held available-for-sale investments listed outside Hong Kong, which is a related party of the Group (*note 10*) amounting to HK\$10,738,000.

## **Finance**

As at 30th September, 2005, the Group's current assets and current liabilities were HK\$729 million and HK\$194 million respectively. There were bank balances and cash of HK\$48 million and unsecured bank loans and overdrafts of HK\$210 million.

Based on the total borrowings of HK\$230 million and the capital and reserves attributable to equity holders of the Company of about HK\$533 million of the Group, the overall borrowings to equity ratio increased to 43% and was still at a healthy level.

## **Employees**

As at 30th September, 2005, 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.

Save as disclosed above, the information relating to matters set out in paragraph 32 of Appendix 16 of The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") has not been changed materially from that disclosed in the annual report of the Company for the year ended 31st March, 2005.

## 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

As at 30th September, 2005, the interests of the directors and chief executive of the Company in the issued share capital of the Company as recorded in the register required to be kept by the Company under section 352 of Part XV of the Securities and Futures Ordinance (the "SFO") or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers 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 a 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 or 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).

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, 2005, 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 by the Company 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 Issuers.

# Management Commentary (*continued*)

## Substantial shareholders

As at 30th September, 2005, 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:

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

Notes:

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

Save as disclosed above, as at 30th September, 2005, 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 interests or short position in the shares or underlying shares of the Company.

## 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.

# 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 the share option scheme or otherwise since its adoption.

## **Compliance with the Model Code**

The Company has adopted a code of conduct regarding directors' securities transactions on the terms of the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all the directors of the Company, all of them had complied with the required standard set out in the Model Code regarding directors' securities transactions throughout the period.

## **Compliance with the Code of Corporate Governance Practices**

The Company was in compliance with the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules at any time during the six months ended 30th September, 2005 except that:

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

## **Review by auditors and audit committee**

The interim results of the Group for the six months ended 30th September, 2005 have been reviewed but not audited by Grant Thornton, the auditors of the Company.

The audit committee of the Company has reviewed with the management of the Group the accounting principles and practices adopted by the Group, its internal controls and financial reporting matters and the interim results for the six months ended 30th September, 2005.