

Management Discussion and Analysis

OVERALL GROUP RESULTS

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

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

JEWELLERY RETAILING

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

SECURITIES BROKING

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

INVESTMENTS

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

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

FINANCE

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

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

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

Management Discussion and Analysis (Continued)

PROVISION

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

CONTINGENCIES

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

INTERNAL CONTROL

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

EMPLOYEES AND EMOLUMENT POLICY

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

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