

The directors would like to present their report together with the audited financial statements for the year ended 31st March, 2006.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 18 to the financial statements.

An analysis of the Group's performance for the year, which arose mainly in Hong Kong, by business segments is set out in note 5 to the financial statements.

RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 22.

The directors declared an interim dividend of HK0.45 cent per ordinary share, totalling HK\$1,958,000. The interim dividend was paid on 13th January, 2006.

The directors recommend the payment of a final dividend of HK0.8 cent per ordinary share, totalling HK\$3,481,000.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 27 and 28 and note 32 to the financial statements respectively.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st March, 2006, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to HK\$188,910,000 (2005: HK\$176,098,000).

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment are set out in note 15 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 75.

MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases

— the largest supplier	15%
— five largest suppliers combined	39%

Sales

— the largest customer	5%
— five largest customers combined	11%

Report of the Directors (Continued)

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

None of the directors, their associates or any shareholder (which to the knowledge of the directors owns more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

DIRECTORS

The directors during the year and up to the date of this report are:

- * Mr. Yeung Ping Leung, Howard
- * Mr. Tang Yat Sun, Richard
- + Mr. Cheng Kwai Yin (*passed away on 4th May, 2006*)
Dr. Sin Wai Kin
- * Mr. Cheng Ka On, Dominic
- * Mr. Yeung Bing Kwong, Kenneth
- * Ms. Fung Chung Yee, Caroline
- + Mr. Lau To Yee
- + Mr. Cheng Kar Shing, Peter
Mr. Wong Wei Ping, Martin
- + Mr. Chan Chak Cheung, William
Mr. Ho Hau Hay, Hamilton
Mr. Sin Nga Yan, Benedict (*appointed on 4th July, 2006*)
- * *Executive Directors*
- + *Independent Non-executive Directors*

Brief biographical details of the directors are set out on pages 3 and 4.

In accordance with Article 116 of the Company's Articles of Association, Dr. Sin Wai Kin, Mr. Cheng Ka On, Dominic, Mr. Cheng Kar Shing, Peter and Mr. Wong Wei Ping, Martin shall retire by rotation at the forthcoming annual general meeting of the Company. Mr. Cheng Ka On, Dominic, Mr. Cheng Kar Shing, Peter and Mr. Wong Wei Ping, Martin, being eligible, have offered themselves for re-election. Dr. Sin Wai Kin has informed the board that he intends to retire and will not seek re-election.

In accordance with Article 99 of the Company's Articles of Association, Mr. Sin Nga Yan, Benedict shall retire at the forthcoming annual general meeting and, being eligible, has offered himself for re-election.

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 at annual general meetings in accordance with the Articles of Association of the Company.

The Company confirms that it has received letters of confirmation of independence from all of the independent non-executive directors in accordance with Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and considers that the independent non-executive directors are independent.

Report of the Directors (Continued)

DIRECTORS (Continued)

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, 2006 at fees totalling HK\$2,500,000. 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 aforesaid, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' INTERESTS

At 31st March, 2006, the interests of the directors and chief executive of the Company in the 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 Transactions 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 a 40% interest. Accordingly, Mr. Ho is deemed to be interested in all these shares held by Tak Hung.

Save as disclosed above, as at 31st March, 2006, 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.

Save as disclosed below, no contracts of significance in relation to the Group’s business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year:

1. (a) The Group entered into six tenancy agreements (the “King Fook Leases”) on normal commercial terms with Stanwick Properties Limited (a wholly owned subsidiary of Yeung Chi Shing Estates Limited, a substantial shareholder of the Company) on 13th August, 2005 in respect of premises in King Fook Building, Hong Kong. The leased properties are used as the key retail outlet and the headquarters of the Group.

Report of the Directors (Continued)

DIRECTORS' INTERESTS (Continued)

Major terms of the King Fook Leases are as follows:

Basement, Ground Floor and Mezzanine Floor, King Fook Building

Tenant	Term	Rent per month
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK\$411,520

3rd Floor, King Fook Building

Tenant	Term	Rent per month
the Company	2 years from 16/8/05 to 15/8/07	HK\$21,636

5th Floor, King Fook Building

Tenant	Term	Rent per month
the Company	2 years from 16/8/05 to 15/8/07	HK\$21,636

8th Floor, King Fook Building

Tenant	Term	Rent per month
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK\$21,636

9th Floor, King Fook Building

Tenant	Term	Rent per month
the Company	2 years from 16/8/05 to 15/8/07	HK\$21,636

10th Floor, King Fook Building

Tenant	Term	Rent per month
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK\$21,636

- (b) The Company has also entered into a licence agreement (the "Licence Agreement") with Yeung Chi Shing Estates Limited 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 contract commenced from 7th December, 1998 and does not fix the termination date.

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.

2. (a) King Fook Jewellery Group Limited (a wholly owned subsidiary of the Company) entered into a tenancy agreement (the "First Miramar Lease") with Contender Limited (a wholly owned subsidiary of Miramar Hotel and Investment Company, Limited, a substantial shareholder of the Company) on 28th April, 2004 on normal commercial terms pursuant to an offer letter dated 15th July, 2003 in respect of shop units G1-2 and G1A on the ground floor and shop units AR201-02 and AR217 on the first floor of Hotel Miramar Shopping Arcade, Kowloon, Hong Kong. The leased shops are the key retail outlets of the Group.

DIRECTORS' INTERESTS (Continued)

Mr. Tang Yat Sun, Richard, Dr. Sin Wai Kin and Mr. Cheng Ka On, Dominic are directors and shareholders of Miramar Hotel and Investment Company, Limited. Mr. Yeung Ping Leung, Howard is a director of Miramar Hotel and Investment Company, Limited.

Major terms of the First Miramar Lease are as follows:

Term	Rent per month
3 years from 16/7/03 to 15/7/06	HK\$897,290

- (b) Pursuant to an offer letter dated 27th March, 2006, Top Angel Limited (a wholly owned subsidiary of the Company) and Contender Limited agreed to enter into a tenancy agreement (the "Second Miramar Lease") on normal commercial terms relating to shops 1B1 and 1B2, 1st Basement Level, Hotel Miramar Shopping Arcade, Kowloon, Hong Kong. The leased shops will be used as a deluxe style fashion outlet to expand the Group's business activities.

Major terms of the Second Miramar Lease will be as follows:

Term	Rent per month
3 years from 9/6/06 to 8/6/09	HK\$473,430

The above transactions (except the Licence Agreement) constituted continuing connected transactions not exempt under rule 14A.33 of the Listing Rules. Details of these transactions and other related party transactions are set out in note 38 to the financial statements.

The independent non-executive directors of the Company have reviewed the continuing connected transactions under the King Fook Leases, the First Miramar Lease and the Second Miramar Lease pursuant to rule 14A.37 of the Listing Rules and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have reviewed the continuing connected transactions under the King Fook Leases, the First Miramar Lease and the Second Miramar Lease pursuant to rule 14A.38 of the Listing Rules and advised the board of directors in writing with a copy provided to the Stock Exchange that the transactions:

- (1) have received the approval of the board of directors of the Company;
- (2) have been entered into in accordance with the relevant agreements governing the transactions; and
- (3) have not exceeded the caps disclosed in previous announcements.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

Report of the Directors (Continued)

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to rule 8.10(2) of the Listing Rules:

Mr. Cheng Kar Shing, Peter, an independent non-executive director of the Company, 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.

Dr. Sin Wai Kin is the chairman 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. Sin Nga Yan, Benedict is a director and general manager of Myer Jewelry Manufacturer Limited. The trading of fine and costume jewellery business of 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 exchange 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.

BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, overdrafts and other borrowings of the Group are set out under current liabilities on the consolidated balance sheet and in note 29 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

At 31st March, 2006, the following persons (other than a director or chief executive of the Company) had interests in the 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:

Name of shareholder	Number of ordinary shares held	Nature of interest	Percentage of shareholding
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 31st March, 2006, 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.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year.

SHARE OPTION SCHEME

On 27th August, 2004, the Company adopted a share option scheme (the "Scheme") for the purpose of attracting and retaining quality personnel and other persons who may contribute to the business and operation of the Group. Options may be granted without any initial payment to persons including directors, employees or consultants of the Group. Presently the maximum number of shares issuable under the Scheme is 43,507,165 shares (being 10% of the issued share capital of the Company at 27th August, 2004). The maximum number of shares in respect of which options may be granted to any one person in any 12-month period is 1% of the issued share capital of the Company on the last date of such 12-month period unless with shareholders' approval. The option period shall be not more than 10 years from the date of grant of an option, and may include a minimum period an option must be held before it can be exercised. The exercise price is the highest of (i) the nominal value of one share of the Company; (ii) the closing price per share as stated in the Stock Exchange's daily quotations sheet on the date of the grant of the option; and (iii) the average closing price per share as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date of the grant of the option. The Scheme will remain in force until 26th August, 2014. The Company has not granted any option under the Scheme since its adoption.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of directors and senior management paid by the Group for the year ended 31st March, 2006 are set out in notes 13 and 14 to the financial statements respectively.

PUBLIC FLOAT

Based on information publicly available to the Company and within the knowledge of its directors, not less than 25% of the issued share capital of the Company are held by the public.

AUDITORS

At the annual general meeting of the Company held on 12th September, 2005, PricewaterhouseCoopers, the then auditors of the Company, did not seek re-appointment and Grant Thornton were appointed as auditors of the Company. A resolution will be proposed at the forthcoming annual general meeting of the Company to re-appoint Grant Thornton as auditors of the Company.

On behalf of the Board

Yeung Ping Leung, Howard
Chairman

Hong Kong, 4th July, 2006