

Notes to the Financial Statements

For the year ended 31st March, 2006

1. GENERAL INFORMATION

The Company is a limited liability company incorporated and domiciled in Hong Kong. The address of its registered office is located at 9th Floor, King Fook Building, 30–32 Des Voeux Road Central, Hong Kong and its principal place of business is in Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

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

The financial statements for the year ended 31st March, 2006 were approved by the board of directors on 4th July, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 22 to 73 have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), the Hong Kong Companies Ordinance and the disclosure requirements of the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules").

The significant accounting policies that have been used in the preparation of these financial statements are recognised below.

The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial assets and liabilities. The measurement bases are fully described in the accounting policies below.

It should be noted that accounting estimates and assumptions are used in preparation of these financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

2.2 Adoption of new or revised HKFRS

From 1st April, 2005, the Group has adopted the new or revised standards and interpretations of HKFRS, which are relevant to its operations. This includes the following new, revised and renamed standards:

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 31	Interests in Joint Ventures
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKFRS 3	Business Combinations

All the standards have been applied retrospectively except where specific transitional provisions require a different treatment and accordingly the 2005 financial statements and their presentation have been amended in accordance with HKAS 8. Due to the change in accounting policies, the 2005 comparatives contained in these financial statements differ from those published in the financial statements for the year ended 31st March, 2005.

Significant effects on current, prior or future periods arising from the first-time application of the standards listed above in respect to presentation, recognition and measurement of accounts are described in the following notes:

2.2.1 Adoption of HKAS 1

The application of HKAS 1 has resulted in a change in the presentation of the financial statements. Minority interests are now presented as a separate line within capital and reserves. Profit and loss attributable to minority interests and that attributable to the shareholders of the Company are now presented as an allocation of the profit for the year.

2.2.2 Adoption of HKAS 17

In previous years, leasehold land and buildings were included in property, plant and equipment and carried at cost less accumulated depreciation and accumulated impairment losses.

Upon the adoption of HKAS 17, the land and building elements are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and building elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and building elements can be made reliably, prepaid land lease payments under operating leases are reclassified as leasehold interests in land, which are carried at cost and subsequently expensed in the income statement on a straight-line basis over the lease term. This change in accounting policy has been applied retrospectively.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.3 Adoption of HKAS 31

In previous years, the interest in a jointly controlled entity was accounted for using the equity method. In the current year, the Group has applied HKAS 31 "Interests in Joint Ventures" which allows an entity to use either proportionate consolidation or the equity method to account for its interests in jointly controlled entities. Upon the application of HKAS 31, the Group has elected to continue to apply the equity method to account for its interests in jointly controlled entities. As a result, there has been no change in accounting method in respect of the Group's interest in jointly controlled entities. This change has no effect on the Group's retained profits at 1st April, 2005.

2.2.4 Adoption of HKAS 32 and HKAS 39

Prior to the adoption of HKAS 39, trading investments and non-trading investments were measured at fair value. Changes in fair value of trading investments were recognised in the income statement as they arose. For non-trading investments, changes in fair value were dealt with in the investment revaluation reserve until the securities were sold or determined to be impaired, at which time the cumulative gain or loss previously recognised in the investment revaluation reserve was included in the income statement for that period.

On the adoption of HKAS 39, the Group has redesignated "Trading investments" and "Non-trading investments" as "Investments at fair value through profit or loss" and "Available-for-sale investments" respectively.

The transitional provisions of HKAS 39 does not permit the recognition, derecognition and measurement of financial assets and liabilities in accordance with the standard on a retrospective basis. Accordingly, any adjustment to the previous carrying amount is recognised in the opening balance of retained earnings on 1st April, 2005 and the comparative figures have not been restated.

2.2.5 Adoption of HKAS 36 and HKFRS 3

In previous years, goodwill was capitalised and amortised on the straight-line basis over its estimated useful life and subject to impairment testing when there was any indication of impairment.

In accordance with the provisions of HKFRS 3, with respect to goodwill previously capitalised on the consolidated balance sheet, the amortisation of goodwill has ceased from 1st April, 2005 and the accumulated amortisation at 31st March, 2005 was eliminated against the original gross amount of goodwill. Goodwill is now subject only to annual testing for impairment as well as when there is an indication of impairment. The Group has allocated the carrying amount of its goodwill to its cash-generating units.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.5 Adoption of HKAS 36 and HKFRS 3 (Continued)

In respect of goodwill previously eliminated against or credited to reserves, HKFRS 3 does not require entities to recognise that goodwill in income statement when it disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. Moreover, the Group is not required nor permitted to restate goodwill previously eliminated against reserves. Goodwill previously recognised in reserves as at 1st April, 2005 continues to be held in reserves and will be transferred to retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

On adoption of HKFRS 3, all accumulated amortisation and impairment losses were eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1st April, 2005.

2.2.6 Other standards adopted

The adoption of HKAS 2, 7, 8, 10, 12, 14, 16, 18, 19, 21, 23, 24, 27, 33, 37 and 40 did not result in significant changes to the Group's accounting policies. The specific transitional provisions contained in some of these standards were considered. The adoption of these other standards did not result in any changes to the amounts or disclosures in these financial statements.

2.2.7 The effect of changes in the accounting policies on the consolidated income statement on adoption of HKAS 17 which takes effect retrospectively is summarised below:

	HKAS 17 HK\$'000
Year ended 31st March, 2005	
Increase in amortisation of leasehold interests in land	134
Decrease in depreciation	(134)
	—
Total increase/(decrease) in profit	—
Increase/(decrease) in basic earnings per share (HK cents)	—
Year ended 31st March, 2006	
Increase in amortisation of leasehold interests in land	134
Decrease in depreciation	(134)
	—
Total increase/(decrease) in profit	—
Increase/(decrease) in basic earnings per share (HK cents)	—

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.8 The effect of changes in the accounting policies on the consolidated balance sheet on adoption of HKAS 17 and 39 is summarised below:

	HKAS 17 [#] HK\$'000	HKAS 39* HK\$'000	Total HK\$'000
At 31st March, 2005			
<u>Increase/(decrease) in assets</u>			
Property, plant and equipment	(6,114)	—	(6,114)
Leasehold interests in land	6,114	—	6,114
	<u>6,114</u>	<u>—</u>	<u>6,114</u>
At 1st April, 2005			
<u>Increase/(decrease) in assets</u>			
Property, plant and equipment	(6,114)	—	(6,114)
Leasehold interests in land	6,114	—	6,114
Trading investments	—	(15,453)	(15,453)
Investments at fair value through profit or loss	—	15,453	15,453
Non-trading investments	—	(65,830)	(65,830)
Available-for-sale investments	—	65,830	65,830
	<u>—</u>	<u>65,830</u>	<u>65,830</u>
At 31st March, 2006			
<u>Increase/(decrease) in assets</u>			
Property, plant and equipment	(5,980)	—	(5,980)
Leasehold interests in land	5,980	—	5,980
	<u>5,980</u>	<u>—</u>	<u>5,980</u>

[#] adjustments which take effect retrospectively

* adjustments which take effect prospectively from 1st April, 2005

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.2 Adoption of new or revised HKFRS (Continued)

2.2.9 *New standards or interpretations that have been issued but are not yet effective*

The Group has not adopted early the following standards or interpretations relevant to its operations that have been issued but are not yet effective. The directors of the Company anticipate that the adoption of these standards and interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures ¹
HKAS 19 (Amendment)	Employee Benefits — Actuarial Gains and Losses, Group Plans and Disclosures ²
HKAS 21 (Amendment)	The Effects of Changes in Foreign Exchange Rates — Net Investment in a Foreign Operation ²
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions ²
HKAS 39 (Amendment)	The Fair Value Option ²
HKAS 39 & HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts — Financial Guarantee Contracts ²
HKFRS 7	Financial Instruments — Disclosures ¹
HK(IFRIC) — Int 4	Determining whether an Arrangement contains a Lease ²

1 Effective for annual periods beginning on or after 1st January, 2007

2 Effective for annual periods beginning on or after 1st January, 2006

2.3 Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to 31st March each year. Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the assets transferred.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to the shareholders that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and consolidated statement of changes in equity within equity, separately from equity attributable to the shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and shareholders of the Company.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.4 Subsidiaries

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

Acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

In the Company's balance sheet, subsidiaries are carried at cost less any provision for impairment loss. The results of the subsidiaries are accounted for by the Company on the basis of dividends received and receivable at the balance sheet date.

2.5 Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control. Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the venturers.

The Group's share of post-acquisition results and reserves of jointly controlled entities is included in the consolidated income statement and consolidated reserves, respectively. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in a jointly controlled entity equals or exceeds its interest in the jointly controlled entity (including any other unsecured receivables), the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the jointly controlled entity.

The Company's investment in a jointly controlled entity is stated at cost less any provision for impairment losses. The results of the jointly controlled entity are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Foreign currency translation

The financial statements are presented in Hong Kong Dollars (HK\$), which is also the functional currency of the Company.

In the separate financial statements of the consolidated entities, foreign currency transactions are translated into the functional currency of the individual entity using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are recognised in the income statement.

In the consolidated financial statements, all separate financial statements of subsidiaries and jointly controlled entities originally presented in a currency different from the Group's functional currency, have been converted into Hong Kong Dollars. Assets and liabilities have been translated into Hong Kong dollars at the closing rate at the balance sheet date. Income and expenses have been converted into Hong Kong dollars at the average rates over the reporting period. Any differences arising from this procedure have been dealt with in the exchange fluctuation reserve in capital and reserves. Goodwill and fair value adjustments arising on the acquisition of a foreign entity have been treated as assets and liabilities of the foreign entity and translated into Hong Kong Dollars at the closing rates.

2.7 Income and expense recognition

Revenue comprises the fair value for the sale of goods and services, net of rebates and discounts and after elimination of sales within the Group.

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue and costs, if applicable, can be measured reliably and 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.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.7 Income and expense recognition (Continued)

(v) *Interest income*

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

Operating expenses are recognised in the income statement upon utilisation of the services.

2.8 Borrowing costs

All borrowing costs are expensed as incurred.

2.9 Goodwill

Goodwill arising on acquisition of subsidiaries for which the agreement date is before 1st April, 2005 represents the excess of the cost of an acquisition over the Group's interest in the fair value of identifiable assets and liabilities of the acquired subsidiary at the date of acquisition. The Group has discontinued amortisation from 1st April, 2005 onwards and such goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill arising on acquisition prior to 1st April, 2001 continues to be held in reserves and will be charged to the retained profits at the time when the business to which the goodwill relates is disposed of or when a cash-generating unit to which goodwill relates becomes impaired.

2.10 Property, plant and equipment

Property, plant and equipment are stated at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. The gain or loss arising on the disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Property, plant and equipment (Continued)

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost over their estimated useful lives, at the following rates per annum:

Buildings	2%–2.5%
Leasehold improvement	15% or over the remaining period of the lease, whichever is shorter
Plant and machinery, furniture and equipment	15%
Motor vehicles	15%

The assets' useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.11 Investment property

Investment properties are interests in land and buildings held to earn rentals or for capital appreciation or both, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business.

On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment property is stated at cost less subsequent accumulated depreciation and any accumulated impairment losses. Depreciation is provided so as to write off the cost of the investment property using the straight-line method over the expected useful life to the Group.

2.12 Leasehold interests in land

Leasehold interests in land represent up-front payments to acquire long term interests for the usage of land. They are stated at cost and charged to the income statement over the remaining period of the lease on a straight-line basis, net of any provision for impairment losses.

2.13 Impairment of assets

Goodwill, property, plant and equipment, leasehold interests in land, investment properties, interests in subsidiaries and jointly controlled entities are subject to impairment testing.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level. Goodwill in particular is allocated to those cash-generating units that are expected to benefit from synergies of the related business combination and represent the lowest level within the Group at which management controls the related cash flows.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Impairment of assets (Continued)

Individual assets or cash-generating units that include goodwill are tested for impairment at least annually, irrespective of whether there is any indication that they are impaired. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use based on an internal discounted cash flow evaluation. Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

An impairment loss on goodwill is not reversed in subsequent periods. In respect of other assets, an impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2.14 Leases

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Annual rentals applicable to such operating leases are charged to the income statement on a straight-line basis over the lease terms.

Lease incentives received are recognised in the income statement as an integral part of the aggregate net lease payments made. Contingent rentals are charged to the income statement in the accounting period in which they are incurred.

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial assets

In previous years, the Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as non-trading investments and trading investments.

Non-trading investments which were held for non-trading purpose were stated at fair value at the balance sheet date. Changes in fair value of individual securities were credited or debited to the investment revaluation reserve until the security was sold, or was determined to be impaired. Upon disposal, the cumulative gain or loss representing the difference between the net sales proceeds and the carrying amount of the relevant security, together with any surplus/deficit transferred from the investment revaluation reserve, was dealt with in the income statement. Where there is objective evidence that individual investments were impaired, the cumulative loss recorded in the revaluation reserve was taken to the income statement.

Trading investments were carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of trading investments were recognised in the income statement. Profits or losses on disposal of trading investments, representing the difference between the net sales proceeds and the carrying amounts, were recognised in the income statements as they arose.

From 1st April, 2005 onwards, the Group classified its financial assets into debtors, deposits and prepayments, investments at fair value through profit or loss, available-for-sale investments and cash and cash equivalents. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the financial assets were acquired. The designation of financial assets is reclassified at every reporting date at which a choice of classification or accounting treatment is available.

All financial assets are recognised on their trade date. When financial assets are recognised initially, they are measured at fair value, plus in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

Derecognition of financial assets occurs when the rights to receive cash flows from the investments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred. An assessment for impairment is undertaken at least at each balance sheet date whether or not there is objective evidence that a financial asset or a group of financial assets is impaired.

Investments at fair value through profit or loss include financial assets that are either held for trading or are designated by the entity to be carried at fair value through profit or loss on initial recognition. Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognised in the income statement. Financial assets originally designated as financial assets at fair value through profit or loss may not subsequently be re-classified.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.15 Financial assets (Continued)

Available-for-sale investments are subsequently measured at fair value, with changes in value recognised in equity. Upon disposal, the cumulative gain or loss previously recognised in equity is transferred to the income statement. When a decline in fair value of an available-for-sale investments has been recognised directly in equity and there is objective evidence that the asset is impaired, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in the income statement even though the financial asset has not been derecognised.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment losses. Any changes in their value is recognised in the income statement.

A provision for impairment of loans and receivables are provided when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the write-down is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows.

2.16 Inventories

Inventories, 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 stated at fair value less cost to sell. Changes in fair value are recognised in the income statement in the period of the change.

2.17 Accounting for income taxes

Income tax comprises current tax and deferred tax.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting periods, that are unpaid at the balance sheet date. They are calculated according to the tax rates and tax laws applicable to the tax periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognised as a component of tax expense in the income statement.

Deferred tax is calculated using the liability method on temporary differences at the balance sheet date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.17 Accounting for income taxes (Continued)

Deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the balance sheet date.

Changes in deferred tax assets or liabilities are recognised in the income statement, or in equity if they relate to items that are charged or credited directly to equity.

2.18 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand, short-term bank deposits.

2.19 Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incidental costs directly attributable to the equity transaction.

2.20 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.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.20 Employee benefits (Continued)

(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.

2.21 Financial liabilities

The Group's financial liabilities include bank loans and overdrafts, gold loans and creditors and accruals. They are included in balance sheet line items as "bank loans and overdrafts", "gold loans" and "creditors and accruals" under current liabilities and "bank loans" under non-current liabilities.

Financial liabilities are recognised when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognised as an expense in finance costs in the income statement.

Bank loans are recognised initially at fair value, net of transaction costs incurred. Bank loans are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the bank loans using the effective interest method.

On initial recognition, gold loans are designated as financial liabilities at fair value through profit or loss. Subsequent to initial recognition, gold loans are measured at fair value with changes in fair value recognised in the income statement. Financial liabilities originally designated as financial liabilities at fair value through profit or loss may not subsequently be reclassified.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Creditors and accruals are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest rate method.

2.22 Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.22 Provisions and contingent liabilities (Continued)

All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

Contingent liabilities are recognised in the course of the allocation of purchase price to the assets and liabilities acquired in a business combination. They are initially measured at fair value at the date of acquisition and subsequently measured at the higher of the amount that would be recognised in a comparable provision as described above and the amount initially recognised less any accumulated amortisation, if appropriate.

2.23 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 segments as the secondary reporting format.

Unallocated results mainly represent dividend income from investments at fair value through profit or loss/available-for-sale investments and the gain or loss from investments at fair value through profit or loss/available-for-sale investments less corporate expenses. Segment assets consist primarily of property, plant and equipment, 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 property, plant and equipment, including additions resulting from acquisitions through purchases of subsidiaries.

2.24 Related parties

Parties are considered to be related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the Group:
 - controls, is controlled by, or is under common control with, the entity;
 - has an interest in the entity that gives it significant influence over the entity;
 - has joint control over the entity;
- (ii) the party is a jointly-controlled entity;
- (iii) the party is a member of the key management personnel of the Group or its parent;

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.24 Related parties (Continued)

- (iv) the party is a close member of the family or any individual referred to in (i) or (iii);
- (v) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iii) or (iv); or
- (vi) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Depreciation

The Group depreciates property, plant and equipment on a straight-line basis over the estimated useful lives of 7 to 50 years, starting from the date on which the assets are placed into productive use. The estimated useful lives reflect the directors' estimates of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

(ii) Impairment of available-for-sale financial assets

For available-for-sale financial assets, a significant or prolonged decline in fair value below cost is considered to be objective evidence of impairment. Judgement is required when determining whether a decline in fair value has been significant and/or prolonged. In making this judgement, the historical data on market volatility as well as the price of the specific investment are taken into account. The Group also takes into account other factors, such as industry and sector performance and financial information regarding the issuer/investee.

(iii) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(iv) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

4. REVENUE

The Group is principally engaged in gold ornament, jewellery, watch and gift retailing, bullion trading, securities broking and diamond wholesaling. Revenue, which is also the Group's turnover, recognised during the year comprised the following:

	2006	2005
	HK\$'000	HK\$'000
Gold ornament, jewellery, watch and gift retailing	697,620	616,275
Bullion trading	82,288	36,928
Commission from securities broking	6,805	8,001
Diamond wholesaling	<u>12,199</u>	<u>18,116</u>
	<u>798,912</u>	<u>679,320</u>

5. SEGMENT INFORMATION

The Group is organised into two main business segments:

- (i) Retailing, bullion trading and diamond wholesaling
- (ii) Securities broking

There was no intersegment sale and transfer during the year (2005: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

5. SEGMENT INFORMATION (Continued)

(a) Business segments

	Retailing, bullion trading and diamond wholesaling 2006 HK\$'000	Securities broking 2006 HK\$'000	Group 2006 HK\$'000
Segment revenue	<u>792,107</u>	<u>6,805</u>	<u>798,912</u>
Segment results	<u>62,728</u>	<u>(1,643)</u>	61,085
Unallocated results			<u>(29,411)</u>
Operating profit			31,674
Finance costs			(9,685)
Share of profit of jointly controlled entities	14		<u>14</u>
Profit before taxation			22,003
Taxation			<u>(3,928)</u>
Profit for the year			<u>18,075</u>
Segment assets	638,929	52,718	691,647
Investment in jointly controlled entities	4,940		4,940
Unallocated assets			<u>166,402</u>
Total assets			<u>862,989</u>
Segment liabilities	46,552	43,504	90,056
Unallocated liabilities			<u>195,917</u>
Total liabilities			<u>285,973</u>
Capital expenditure			
Additions of property, plant and equipment			
— segment	4,699	813	5,512
— unallocated			1,774
Depreciation			
— segment	8,071	585	8,656
— unallocated			1,309

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

5. SEGMENT INFORMATION (Continued)

(a) Business segments (Continued)

	Retailing, bullion trading and diamond wholesaling 2005 HK\$'000 (Restated)	Securities broking 2005 HK\$'000	Group 2005 HK\$'000 (Restated)
Segment revenue	671,319	8,001	679,320
Segment results	52,100	2,643	54,743
Unallocated results			(30,556)
Operating profit			24,187
Finance costs			(3,313)
Share of profit of a jointly controlled entity	110		110
Profit before taxation			20,984
Taxation			(449)
Profit for the year			20,535
Segment assets	612,624	40,740	653,364
Investment in a jointly controlled entity	4,884		4,884
Unallocated assets			101,739
Total assets			759,987
Segment liabilities	35,051	17,457	52,508
Unallocated liabilities			189,676
Total liabilities			242,184
Capital expenditure			
Additions of property, plant and equipment			
— segment	6,195	585	6,780
— unallocated			1,851
Depreciation			
— segment	5,858	756	6,614
— unallocated			1,119
Amortisation of goodwill			414
Provision for impairment losses of goodwill			1,247

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

5. SEGMENT INFORMATION (Continued)

(b) Geographical segments

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

6. FINANCE COSTS

	2006 HK\$'000	2005 HK\$'000
Interest charge on:		
Bank loans and overdrafts repayable within five years	9,447	2,972
Gold loans repayable within five years	238	169
Loan from a director	—	172
	<u>9,685</u>	<u>3,313</u>

7. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging and crediting:

	2006 HK\$'000	2005 HK\$'000 (Restated)
Charging:		
Amortisation of goodwill	—	414
Amortisation of leasehold interests in land	134	134
Auditors' remuneration		
— Provision for the current year	843	1,124
Cost of inventories sold	620,927	515,037
Depreciation of property, plant and equipment	9,965	7,733
Depreciation of investment properties	35	—
Loss on disposal of property, plant and equipment	98	590
Provision for impairment losses of goodwill	—	1,247
Operating leases charges in respect of properties	44,059	41,002
Provision for impairment losses of debtors	23	1,522
Provision for and write down of inventories	1,086	268
Provision for loss resulting from misappropriation of clients' securities, net (note 27(b))	<u>16,800</u>	<u>—</u>
Crediting:		
Dividend income	3,083	1,544
Interest income	468	342
Fair value change of investments at fair value through profit or loss	5,345	4,388
Gain on disposal of available-for-sale investments	13,082	2,702
Rental income less outgoings		
— owned properties	1,187	563
— operating subleases	<u>939</u>	<u>1,128</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

8. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the jurisdictions in which the Group operates.

	2006 HK\$'000	2005 HK\$'000
Current tax		
— Hong Kong		
Tax for the year	3,921	420
(Over)/under provision in prior years	<u>(3)</u>	<u>1</u>
	3,918	421
— Overseas taxation	<u>10</u>	<u>28</u>
Total taxation charge	<u><u>3,928</u></u>	<u><u>449</u></u>

Reconciliation between tax expense and accounting profit at applicable tax rates is as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	<u><u>22,003</u></u>	<u><u>20,984</u></u>
Tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions	3,881	3,389
Tax effect of non-taxable income	(3,327)	(586)
Tax effect of non-deductible expenses	3,546	715
Temporary differences not recognised	142	33
Tax losses not recognised	1,823	2,062
Utilisation of previously unrecognised tax losses	(2,428)	(5,165)
Others	<u>291</u>	<u>1</u>
Taxation charge	<u><u>3,928</u></u>	<u><u>449</u></u>

9. PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

Of the consolidated profit attributable to the shareholders of the Company of HK\$17,947,000 (2005: HK\$20,562,000), a profit of HK\$18,251,000 (2005: HK\$2,253,000) has been dealt with in the financial statements of the Company.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

10. DIVIDENDS

	2006 HK\$'000	2005 HK\$'000
Interim dividend of HK0.45 cent per share (2005: HK0.4 cent)	1,958	1,740
Proposed final dividend of HK0.8 cent per share (2005: HK0.8 cent)	<u>3,481</u>	<u>3,481</u>
	<u>5,439</u>	<u>5,221</u>

At a meeting held on 9th December, 2005, the directors declared an interim dividend of HK0.45 cent per share for the year. The interim dividend was paid on 13th January, 2006 and was reflected as an appropriation of retained profits for the year.

At a meeting held on 4th July, 2006, the directors proposed a final dividend of HK0.8 cent per share for the year. This proposed dividend is not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ending 31st March, 2007.

11. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to the shareholders of the Company of HK\$17,947,000 (2005: HK\$20,562,000) and on 435,071,650 (2005: 435,071,650) ordinary shares in issue during the year.

Diluted earnings per share for the year ended 31st March, 2006 was not presented as there was no potential dilutive effect (2005: Nil).

12. EMPLOYEE BENEFIT EXPENSE

	2006 HK\$'000	2005 HK\$'000
Wages, salaries and allowances	54,321	46,441
Pension costs — defined contribution retirement schemes*	<u>2,647</u>	<u>2,554</u>
	<u>56,968</u>	<u>48,995</u>

Employee benefit expense 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, 2005 and 2006 have been credited to the employers' balance in respect of the remaining members' accounts.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

13. DIRECTORS' EMOLUMENTS

	Fees HK\$'000	Salaries and allowances HK\$'000	Bonuses HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
2006					
Executive directors					
Mr. Yeung Ping Leung, Howard	17	—	—	1	18
Mr. Tang Yat Sun, Richard	16	—	—	1	17
Mr. Cheng Ka On, Dominic	16	—	—	1	17
Mr. Yeung Bing Kwong, Kenneth	18	216	—	10	244
Ms. Fung Chung Yee, Caroline	14	556	200	31	801
Non-executive directors					
Dr. Sin Wai Kin	14	—	—	—	14
Mr. Wong Wei Ping, Martin	10	—	—	—	10
Mr. Ho Hau Hay, Hamilton	10	—	—	—	10
Independent non-executive directors					
Mr. Cheng Kwai Yin	10	—	—	—	10
Mr. Lau To Yee	10	—	—	—	10
Mr. Cheng Kar Shing, Peter	12	—	—	—	12
Mr. Chan Chak Cheung, William	10	240	—	—	250
	<u>157</u>	<u>1,012</u>	<u>200</u>	<u>44</u>	<u>1,413</u>
2005					
Executive directors					
Mr. Yeung Ping Leung, Howard	16	—	—	1	17
Mr. Tang Yat Sun, Richard	16	—	—	1	17
Mr. Cheng Ka On, Dominic	16	—	—	1	17
Mr. Yeung Bing Kwong, Kenneth	18	216	—	9	243
Ms. Fung Chung Yee, Caroline	14	540	120	26	700
Non-executive directors					
Dr. Sin Wai Kin	14	—	—	—	14
Mr. Wong Wei Ping, Martin	10	—	—	—	10
Mr. Ho Hau Hay, Hamilton	8	—	—	—	8
Dr. Ho Tim	6	—	—	—	6
Independent non-executive directors					
Mr. Cheng Kwai Yin	10	—	—	—	10
Mr. Lau To Yee	10	—	—	—	10
Mr. Cheng Kar Shing, Peter	12	—	—	—	12
Mr. Chan Chak Cheung, William	7	131	—	—	138
	<u>157</u>	<u>887</u>	<u>120</u>	<u>38</u>	<u>1,202</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

13. DIRECTORS' EMOLUMENTS (Continued)

During the year, no emoluments were paid by the Group to the directors as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

None of the directors has waived or agreed to waive any emoluments in respect of the year ended 31st March, 2006 (2005: Nil).

14. FIVE HIGHEST PAID INDIVIDUALS

The five individuals whose emoluments were the highest in the Group for the year included one (2005: one) director whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining four (2005: four) highest paid, non-director individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Salaries, allowances and benefits in kind	3,059	2,941
Bonuses	330	205
Pension costs — defined contribution retirement schemes	<u>161</u>	<u>152</u>
	<u><u>3,550</u></u>	<u><u>3,298</u></u>

The emoluments fell within the following bands:

Emolument bands	Number of individuals	
	2006	2005
HK\$Nil–HK\$1,000,000	3	4
HK\$1,000,001–HK\$1,500,000	<u>1</u>	<u>—</u>

During the year, no emoluments were paid by the Group to the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office (2005: Nil).

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

15. PROPERTY, PLANT AND EQUIPMENT

(a) Group

	Buildings HK\$'000 (Restated)	Leasehold improvement HK\$'000	Plant and machinery, furniture and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
At 1st April, 2004					
Cost	5,650	27,409	23,087	598	56,744
Accumulated depreciation	(2,215)	(15,578)	(17,368)	(492)	(35,653)
Net book amount	<u>3,435</u>	<u>11,831</u>	<u>5,719</u>	<u>106</u>	<u>21,091</u>
At 1st April, 2004					
Net book amount	3,435	11,831	5,719	106	21,091
Additions	—	6,115	2,339	177	8,631
Disposals	—	(553)	(58)	—	(611)
Depreciation	(187)	(5,099)	(2,403)	(44)	(7,733)
At 31st March, 2005	<u>3,248</u>	<u>12,294</u>	<u>5,597</u>	<u>239</u>	<u>21,378</u>
At 31st March, 2005					
Cost	5,650	26,609	25,063	775	58,097
Accumulated depreciation	(2,402)	(14,315)	(19,466)	(536)	(36,719)
Net book amount	<u>3,248</u>	<u>12,294</u>	<u>5,597</u>	<u>239</u>	<u>21,378</u>
At 1st April, 2005					
Net book amount	3,248	12,294	5,597	239	21,378
Additions	—	3,809	2,892	585	7,286
Acquisition of a subsidiary	—	57	279	—	336
Transfer to investment properties	(1,169)	—	—	—	(1,169)
Disposals	—	(98)	—	—	(98)
Depreciation	(439)	(7,389)	(1,936)	(201)	(9,965)
At 31st March, 2006	<u>1,640</u>	<u>8,673</u>	<u>6,832</u>	<u>623</u>	<u>17,768</u>
At 31st March, 2006					
Cost	4,481	24,469	27,956	1,360	58,266
Accumulated depreciation	(2,841)	(15,796)	(21,124)	(737)	(40,498)
Net book amount	<u>1,640</u>	<u>8,673</u>	<u>6,832</u>	<u>623</u>	<u>17,768</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

15. PROPERTY, PLANT AND EQUIPMENT (Continued)

(b) Company

	Buildings HK\$'000 (Restated)	Leasehold improvement HK\$'000	Plant and machinery, furniture and equipment HK\$'000	Total HK\$'000
At 1st April, 2004				
Cost	913	1,201	13,113	15,227
Accumulated depreciation	(390)	(183)	(10,449)	(11,022)
Net book amount	<u>523</u>	<u>1,018</u>	<u>2,664</u>	<u>4,205</u>
At 1st April, 2004				
Net book amount	523	1,018	2,664	4,205
Additions	—	274	1,577	1,851
Depreciation	(39)	(208)	(750)	(997)
At 31st March, 2005	<u>484</u>	<u>1,084</u>	<u>3,491</u>	<u>5,059</u>
At 31st March, 2005				
Cost	913	1,475	14,690	17,078
Accumulated depreciation	(429)	(391)	(11,199)	(12,019)
Net book amount	<u>484</u>	<u>1,084</u>	<u>3,491</u>	<u>5,059</u>
At 1st April, 2005				
Net book amount	484	1,084	3,491	5,059
Additions	—	—	753	753
Transfer to investment property	(484)	—	—	(484)
Depreciation	—	(221)	(844)	(1,065)
At 31st March, 2006	<u>—</u>	<u>863</u>	<u>3,400</u>	<u>4,263</u>
At 31st March, 2006				
Cost	429	1,475	15,443	17,347
Accumulated depreciation	(429)	(612)	(12,043)	(13,084)
Net book amount	<u>—</u>	<u>863</u>	<u>3,400</u>	<u>4,263</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

16. LEASEHOLD INTERESTS IN LAND

(a) Group

	2006 HK\$'000	2005 HK\$'000 (Restated)
Opening net carrying amount	6,114	6,248
Amortisation charge for the year	<u>(134)</u>	<u>(134)</u>
Closing net carrying amount	<u><u>5,980</u></u>	<u><u>6,114</u></u>

The prepaid lease payments for leasehold interests in land are held under long and medium term leases in Hong Kong of HK\$678,000 (2005: HK\$679,000) and HK\$5,302,000 (2005: HK\$5,435,000) respectively.

(b) Company

	2006 HK\$'000	2005 HK\$'000 (Restated)
Opening net carrying amount	679	680
Amortisation charge for the year	<u>(1)</u>	<u>(1)</u>
Closing net carrying amount	<u><u>678</u></u>	<u><u>679</u></u>

The prepaid lease payment for leasehold interest in land is held under a long term lease in Hong Kong.

17. INVESTMENT PROPERTIES

(a) Group

	2006 HK\$'000	2005 HK\$'000
Opening net carrying amount	—	—
Transfer from property, plant and equipment	1,169	—
Depreciation	<u>(35)</u>	<u>—</u>
Closing net carrying amount	<u><u>1,134</u></u>	<u><u>—</u></u>

All of the Group's investment properties are situated in Hong Kong.

The fair value of the Group's investment properties at 31st March, 2006 was approximately HK\$3,070,000 which were based on the valuation performed by BMI Appraisals Limited, a firm of independent professional surveyors. Valuations were based on the properties' open market value on 31st March, 2006.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

17. INVESTMENT PROPERTIES (Continued)

(b) Company

	2006 HK\$'000	2005 HK\$'000
Opening net carrying amount	—	—
Transfer from property, plant and equipment	484	—
Depreciation	(17)	—
	<u> </u>	<u> </u>
Closing net carrying amount	<u>467</u>	<u>—</u>

The Company's investment property is situated in Hong Kong.

The fair value of the Company's investment property at 31st March, 2006 was approximately HK\$870,000 which was based on the valuation performed by BMI Appraisals Limited, a firm of independent professional surveyors. Valuation was based on the property's open market value on 31st March, 2006.

18. INTERESTS IN SUBSIDIARIES — COMPANY

	2006 HK\$'000	2005 HK\$'000
Investments in subsidiaries		
Unlisted shares, at cost	127,926	127,926
Less: Provision for impairment losses	(5,142)	(5,142)
	<u> </u>	<u> </u>
	122,784	122,784
Amounts due from subsidiaries	—	546,733
Amounts due to subsidiaries	—	(185,638)
	<u> </u>	<u> </u>
	122,784	483,879
	<u> </u>	<u> </u>
Amounts due from subsidiaries	<u>566,195</u>	<u>—</u>
	<u> </u>	<u> </u>
Amounts due to subsidiaries	<u>(194,050)</u>	<u>—</u>

The amounts due from/to subsidiaries are unsecured, interest free, except for receivables of HK\$206,006,000 (2005: HK\$190,184,000) and payables of HK\$17,506,000 (2005: HK\$21,029,000) which bear interest rates ranging from 0.98% to 5.96% per annum (2005: 1.03% to 4.39% per annum), and repayable on demand.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

18. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Details of the subsidiaries as at 31st March, 2006 are as follows:

Name	Place of incorporation/ operation	Particulars of issued capital	Percentage of issued capital held by		Principal activities
			Group	Company	
Evermind Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	80	80	Investment holding
Jacqueline Emporium Limited	Hong Kong	1,000 ordinary shares of HK\$100 each	100	—	Investment and watch trading
Jet Bright Trading Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	—	Jewellery and watch retailing
King Fook China Resources Limited	Hong Kong	2 ordinary shares of HK\$10 each	100	100	Investment holding
King Fook Commodities Company Limited	Hong Kong	50,000 ordinary shares of HK\$100 each	100	—	Commodities broking
King Fook Gold & Jewellery Company Limited	Hong Kong	546,750 ordinary shares of HK\$100 each	100	100	Investment holding and trading
King Fook Jewellery Group Limited	Hong Kong	600,000 ordinary shares of HK\$100 each	100	100	Gold ornament, jewellery and watch retailing and bullion trading
King Fook Investment Company Limited	Hong Kong	2,500,000 ordinary shares of HK\$1 each	100	100	Investment holding
King Fook International Money Exchange (Kowloon) Limited	Hong Kong	65,000 ordinary shares of HK\$100 each	100	—	Dormant
King Fook Holding Management Limited	Hong Kong	50 ordinary shares of HK\$100 each	100	100	Dormant
King Fook Securities Company Limited	Hong Kong	10,000,000 ordinary shares of HK\$1 each	100	—	Securities broking
King Shing Bullion Traders & Finance Company Limited	Hong Kong	60,000 ordinary shares of HK\$100 each	100	—	Dormant
King Fook Jewellery Designing & Trading Company Limited	Hong Kong	5,000 ordinary shares of HK\$100 each	100	—	Dormant
Kingswood Trading Limited**	Hong Kong	2 ordinary shares of HK\$1 each	100	—	Under liquidation
Mario Villa Limited	Hong Kong	2,000,000 ordinary shares of HK\$1 each	100	100	Investment trading
Perfectrade Limited	Hong Kong	20,000 ordinary shares of HK\$1 each	80	—	Provision of interior design services
Polyview International Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	100	Watch trading
Rich Point Trading Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	—	Dormant
Superior Travellers Services Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	100	Sale of travel related products and provision of marketing services for sale of travel related products
Sure Glory Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	—	Jewellery and watch retailing
Trade Vantage Holdings Limited	Hong Kong	2 ordinary shares of HK\$1 each	100	—	Jewellery and watch retailing

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

18. INTERESTS IN SUBSIDIARIES — COMPANY (Continued)

Name	Place of incorporation/ operation	Particulars of issued capital	Percentage of issued capital held by		Principal activities
			Group	Company	
Yatheng Investments Limited	Hong Kong	10,000 ordinary shares of HK\$1 each	100	—	Property subletting
Young's Diamond Corporation (International) Limited	Hong Kong	100,000 ordinary shares of HK\$100 each	97.8	97.8	Diamond wholesaling
Young's Diamond Factory Limited	Hong Kong	2,000 ordinary shares of US\$10 each	97.8	—	Diamond wholesaling
Elias Holdings Limited	The Republic of Liberia	1 ordinary share with no par value	100	100	Dormant
Guangzhou Free Trade Zone King Fook Gold & Jewellery Company Limited	The People's Republic of China, limited liability company	US\$1,000,000	100	100	Dormant
King Fook (Beijing) Consultancy Services Limited [#]	The People's Republic of China, limited liability company	US\$100,000	100	—	Business consultancy
Young's Diamond Corporation (Shanghai) Limited [#]	The People's Republic of China, limited liability company	US\$200,000	100	100	Diamond wholesaling
King Fook (Shanghai) International Trading Limited [#]	The People's Republic of China, limited liability company	US\$200,000	100	—	Gold ornament, jewellery, watch wholesaling
King Fook Jewellery (China) Company Limited	The People's Republic of China, limited liability company	RMB10,000,000	100	—	Gold ornament, jewellery, watch and diamond retailing and wholesaling
Metal Innovation Limited	British Virgin Islands and operating in Hong Kong	1 ordinary share of US\$1	80	—	Design and metalising
Most Worth Investments Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100	100	Investment holding
Mempro Limited	Isle of Man	100 ordinary shares of £1 each	60	—	Investment holding
Mempro S.A.	Switzerland	100 ordinary shares of CHF1,000 each	54	—	Import and distribution of memory extensions and computer peripheral products
PTE Engineering Limited [*]	Hong Kong	10,000 ordinary shares of HK\$1 each	80	—	Provision of construction services
Jewellery Hospital Company Limited [*]	Hong Kong	10,000 ordinary shares of HK\$1 each	100	—	Manufacturing of jewellery products
Perfectrade Macau [^]	Macau	MOP 25,000	80	—	Provision of interior design services
Top Angel Limited [^]	Hong Kong	1 ordinary share of HK\$1 each	100	—	Trading of fashion

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

^{*} Companies acquired during the year ended 31st March, 2006.

[^] Companies established during the year ended 31st March, 2006.

^{**} The company was liquidated in June 2006.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

19. INTERESTS IN JOINTLY CONTROLLED ENTITIES — GROUP

	2006 HK\$'000	2005 HK\$'000
Share of net assets	<u>4,940</u>	<u>4,884</u>

Details of the jointly controlled entities, established and operating in the PRC and Singapore and held indirectly by the Company as at 31st March, 2006, are as follows:

Name	Principal activity
Shandong Tarzan King Fook Precious Metal Refinery Co. Ltd.*	Gold refining and assaying
Jet Quay Pte. Ltd.^	Provision of premium hospitality services

* 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.

^ The company was established during the year ended 31st March, 2006.

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

During the year ended 31st March, 2006, the Group established another jointly controlled entity in Singapore. The jointly controlled entity is a limited liability company with registered capital of SGD100 and the Group has 30% interest in ownership and profit sharing.

The aggregate amounts relating to the jointly controlled entities attributable to the Group that have been included in the Group's consolidated financial statements are as follows:

	2006 HK\$'000	2005 HK\$'000
Non-current assets	1,703	1,897
Current assets	<u>3,445</u>	<u>3,121</u>
	5,148	5,018
Current liabilities	<u>(208)</u>	<u>(134)</u>
Net assets	<u>4,940</u>	<u>4,884</u>
Income	1,041	693
Expenses	<u>(1,027)</u>	<u>(583)</u>
Profit for the year	<u>14</u>	<u>110</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

20. AVAILABLE-FOR-SALE INVESTMENTS — GROUP (formerly known as non-trading investments)

	2006 HK\$'000	2005 HK\$'000
Equity securities, at market value and fair value		
Listed in Hong Kong	104,083	51,463
Listed outside Hong Kong*	<u>8,120</u>	<u>14,367</u>
	<u><u>112,203</u></u>	<u><u>65,830</u></u>

* As at 31st March, 2006, 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 41.2% (2005: 34.3%) and 5.2% (2005: 6.6%) equity interests in that company respectively.

The amounts presented for the listed equity securities have been determined directly by reference to published price quotations in active markets.

These investments are subject to financial risk exposure in terms of price risk.

As at 31st March, 2006, the carrying amount of interest in the following company exceeded 10% of the total assets of the Group:

Name	Place of incorporation	Principal activities	Particulars of issued shares held	Interest held
Hong Kong Exchanges and Clearing Limited	Hong Kong	Owns and operates the only stock exchange and futures exchange in Hong Kong	2,224,000 shares of HK\$1 each	0.1%

21. OTHER ASSETS — GROUP

	2006 HK\$'000	2005 HK\$'000
Statutory deposits	2,125	2,105
Guarantee deposit	<u>78</u>	<u>—</u>
	<u><u>2,203</u></u>	<u><u>2,105</u></u>

22. GOODWILL — GROUP

The net carrying amount of goodwill can be analysed as follows:

	HK\$'000
At 1st April, 2004	
Gross carrying amount	2,074
Accumulated amortisation	<u>(413)</u>
Net book value	<u><u>1,661</u></u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

22. GOODWILL — GROUP (Continued)

	2006 HK\$'000	2005 HK\$'000
Net book value		
Opening net carrying amount	—	1,661
Amortisation charge for the year	—	(414)
Provision for impairment losses	—	(1,247)
	—	—
Closing net carrying amount	—	—
Closing carrying amount		
Gross carrying amount	—	2,074
Accumulated amortisation	—	(827)
Accumulated impairment losses	—	(1,247)
	—	—
Net book value	—	—

The change in the gross carrying amount of goodwill between 31st March, 2005 and 31st March, 2006 was caused by the transitional provisions of HKFRS 3. In accordance with HKFRS 3, all accumulated amortisation and impairment losses were eliminated against the gross amount of goodwill and amortisation of goodwill was discontinued from 1st April, 2005.

23. INVENTORIES — GROUP

	2006 HK\$'000	2005 HK\$'000
Jewellery	198,828	195,456
Gold ornament and bullion	34,154	24,931
Watches and gifts	342,631	328,832
	575,613	549,219
	575,613	549,219

24. DEBTORS, DEPOSITS AND PREPAYMENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Trade debtors	43,717	38,921	—	—
Other receivables	15,258	9,530	6,479	6,088
Deposits and prepayments	12,547	11,690	371	845
Insurance claim receivable (note 27(b))	12,000	—	—	—
	83,522	60,141	6,850	6,933
	83,522	60,141	6,850	6,933

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

24. DEBTORS, DEPOSITS AND PREPAYMENTS (Continued)

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

	Group	
	2006 HK\$'000	2005 HK\$'000
Within 30 days	40,923	34,402
31–90 days	903	2,401
More than 90 days	<u>1,891</u>	<u>2,118</u>
	<u><u>43,717</u></u>	<u><u>38,921</u></u>

The trade debtors as at the year end mainly consist of receivables of the securities broking business amounting to HK\$22,695,000 (2005: HK\$22,096,000), 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.

25. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS — GROUP (formerly known as trading investments)

	2006 HK\$'000	2005 HK\$'000
Equity securities, at market value and fair value		
Listed in Hong Kong	<u>9,271</u>	<u>15,453</u>

The above investments are classified as held for trading.

Investments at fair value through profit or loss are presented within the section on operating activities as part of changes in working capital in the cash flow statement.

Changes in fair value of investments at fair value through profit or loss are recorded in other operating income/expenses in the income statement.

26. CASH AND CASH EQUIVALENTS

(a) Group

Cash and cash equivalents include the following components:

	2006 HK\$'000	2005 HK\$'000
Cash at banks and in hand	27,622	34,418
Short-term bank deposits	<u>22,733</u>	<u>—</u>
	<u><u>50,355</u></u>	<u><u>34,418</u></u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

26. CASH AND CASH EQUIVALENTS (Continued)

(a) Group (Continued)

The effective interest rates of short-term bank deposits ranged from 0.25% to 3.05% per annum (2005: 0.01% to 0.55% per annum). These deposits have a maturity of 1 to 31 days and are eligible for immediate cancellation without receiving any interest for the last deposit period.

Included in cash at banks and in hand of the Group are bank balances of HK\$4,119,000 (2005: HK\$6,771,000) denominated in Renminbi ("RMB") and placed with banks in the PRC. RMB is not a freely convertible currency.

(b) Company

	2006	2005
	HK\$'000	HK\$'000
Cash at banks and in hand	<u>19,509</u>	<u>937</u>

27. CREDITORS, ACCRUALS AND PROVISION

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Trade payables (note (a))	25,075	24,832	—	—
Other payables and accruals	21,415	17,399	5,224	4,167
Deposits received	5,798	5,925	60	497
Other provision (note (b))	<u>26,395</u>	<u>—</u>	<u>—</u>	<u>—</u>
	<u>78,683</u>	<u>48,156</u>	<u>5,284</u>	<u>4,664</u>

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

	Group	
	2006	2005
	HK\$'000	HK\$'000
Within 30 days	24,787	24,832
31–90 days	270	—
More than 90 days	<u>18</u>	<u>—</u>
	<u>25,075</u>	<u>24,832</u>

(b) The Company had discovered that a former director of a subsidiary of the Group might have misappropriated securities belonging to clients of the Group. At the best estimates of the directors of the Company, such securities have a total market value of about HK\$28,800,000. The Group 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.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

28. GOLD LOANS, UNSECURED

Gold loans bear interest at fixed rates ranging from 0.98% to 1.50% per annum at 31st March, 2006 (2005: 1.40% to 1.70% per annum).

29. BANK LOANS AND OVERDRAFTS, UNSECURED

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Bank overdrafts	—	549	—	—
Bank loans	<u>181,000</u>	<u>181,687</u>	<u>181,000</u>	<u>179,000</u>
	<u>181,000</u>	<u>182,236</u>	<u>181,000</u>	<u>179,000</u>
Bank loans and overdrafts are repayable as follows:				
Within one year	83,000	62,236	83,000	59,000
In the second year	28,000	22,000	28,000	22,000
In third to fifth years, inclusive	<u>70,000</u>	<u>98,000</u>	<u>70,000</u>	<u>98,000</u>
	181,000	182,236	181,000	179,000
Portion classified as current liabilities	<u>(83,000)</u>	<u>(62,236)</u>	<u>(83,000)</u>	<u>(59,000)</u>
Non-current portion	<u>98,000</u>	<u>120,000</u>	<u>98,000</u>	<u>120,000</u>

All bank loans and overdrafts were denominated in Hong Kong dollars, bearing interest at variable rates ranging from 2.66% to 8.60% per annum at 31st March, 2006 (2005: 1.03% to 6.00% per annum).

30. PROVISION FOR LONG SERVICE PAYMENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
At the beginning of the year	607	706	198	250
Payments	(45)	(99)	(45)	(52)
Write back	<u>(130)</u>	<u>—</u>	<u>—</u>	<u>—</u>
At the end of the year	<u>432</u>	<u>607</u>	<u>153</u>	<u>198</u>

The balances as at 31st March, 2005 and 2006 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 Financial Statements (Continued)

For the year ended 31st March, 2006

31. SHARE CAPITAL

	2006 HK\$'000	2005 HK\$'000
Authorised:		
620,000,000 (2005: 620,000,000) ordinary shares of HK\$0.25 each	<u>155,000</u>	<u>155,000</u>
Issued and fully paid:		
435,071,650 (2005: 435,071,650) ordinary shares of HK\$0.25 each	<u>108,768</u>	<u>108,768</u>

32. RESERVES

(a) Group

The amount of the Group's reserves and the movements therein for the current year and the prior year are presented in the consolidated statement of changes in equity of the financial statements.

The share premium account of the Group includes the premium arising from issue of shares of the Company at a premium.

(b) Company

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1st April, 2004	17,575	177,760	195,335
Profit for the year	—	2,253	2,253
Dividends	—	(3,915)	(3,915)
	<u>17,575</u>	<u>176,098</u>	<u>193,673</u>
At 31st March, 2005			
Representing:			
Proposed final dividend (note 10)		3,481	
Others		<u>172,617</u>	
		<u>176,098</u>	
At 1st April, 2005	17,575	176,098	193,673
Profit for the year	—	18,251	18,251
Dividends	—	(5,439)	(5,439)
	<u>17,575</u>	<u>188,910</u>	<u>206,485</u>
At 31st March, 2006			
Representing:			
Proposed final dividend (note 10)		3,481	
Others		<u>185,429</u>	
		<u>188,910</u>	

Details of the share premium account of the Company are set out in note 32(a) above.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT — GROUP

(a) Reconciliation of profit before taxation to net cash generated from/(used in) operations

	<i>Notes</i>	2006 HK\$'000	2005 HK\$'000 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before taxation		22,003	20,984
Amortisation of goodwill		—	414
Amortisation of leasehold interests in land		134	134
Depreciation of property, plant and equipment		9,965	7,733
Depreciation of investment properties		35	—
Dividend income from investments at fair value through profit or loss/available-for-sale investments		(3,083)	(1,544)
Exchange differences		87	9
Loss on disposal of property, plant and equipment		98	590
Provision for impairment losses of goodwill		—	1,247
Interest expense		9,685	3,313
Interest income		(468)	(342)
Gain on disposal of available-for-sale investments		(13,082)	(2,702)
Fair value change of investments at fair value through profit or loss		(5,345)	(4,388)
Provision for impairment losses of debtors		23	1,522
Provision for and write down of inventories		1,086	268
Provision for loss resulting from misappropriation of clients' securities, net	27(b)	16,800	—
Write back of provision for long service payments		(130)	—
Share of profit of jointly controlled entities		(14)	(110)
		<hr/>	<hr/>
Operating profit before working capital changes		37,794	27,128
Increase in inventories		(20,543)	(52,745)
(Increase)/decrease in debtors, deposits and prepayments		(11,360)	28,299
Decrease in investments at fair value through profit or loss		11,527	—
Increase/(decrease) in creditors and accruals		1,060	(25,259)
Increase in gold loans		—	176
Decrease in provision for long service payments		(45)	(99)
		<hr/>	<hr/>
Cash generated from/(used in) operations		<u>18,433</u>	<u>(22,500)</u>

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

33. NOTE TO THE CONSOLIDATED CASH FLOW STATEMENT — GROUP (Continued)

(b) Acquisition of subsidiaries

The Group acquired certain subsidiaries as set out in note 18 to these financial statements. The acquired businesses contributed revenue and net loss of HK\$44,000 and HK\$67,500 respectively to the Group since the respective dates of acquisition. If the acquisitions had occurred on 1st April, 2005, the Group's revenue would have been approximately HK\$801,029,000 and profit for the year would have been approximately HK\$18,743,000.

The assets and liabilities arising from the acquisition are as follows:

	Fair value 2006 HK\$'000
Net assets acquired:	
Property, plant and equipment	336
Inventories	368
Debtors, deposits and prepayments	44
Cash and cash equivalents	—
Creditors and accruals	(667)
	81
Goodwill arising on acquisition (Note 22)	—
	81

An analysis of the net outflow of cash in respect of the acquisitions of subsidiaries is as follows:

	2006 HK\$'000
Cash consideration	81
	81

There was no acquisition of subsidiary in the year ended 31st March, 2005.

34. DEFERRED TAX

Deferred taxation is calculated in full on temporary differences under the balance sheet liability method using a taxation rate of 17.5% (2005: 17.5%).

The movement in the deferred taxation account is as follows:

	Group	
	2006 HK\$'000	2005 HK\$'000
At the beginning and the end of the year	—	—
	—	—

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

34. DEFERRED TAX (Continued)

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		Tax losses		Net amount shown	
	taxation depreciation				in balance sheet	
	2006	2005	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At the beginning of the year	935	1,201	(935)	(1,201)	—	—
Charged/(credited) to income statement	(545)	(266)	545	266	—	—
At the end of the year	<u>390</u>	<u>935</u>	<u>(390)</u>	<u>(935)</u>	<u>—</u>	<u>—</u>

Deferred income tax assets are recognised for tax loss carry forward to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$74,515,000 (2005: HK\$77,697,000) to carry forward against future taxable income and these tax losses have no expiry date.

The Company has no material tax losses to carry forward against future taxable income as at 31st March, 2006. The Company had unrecognised tax losses of HK\$2,011,000 as at 31st March, 2005 to carry forward against future taxable income and these tax losses had no expiry date.

35. OPERATING LEASE COMMITMENTS

At 31st March, the total future aggregate minimum lease payments under non-cancellable operating leases in respect of properties are as follows:

	Group		Company	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within one year	31,397	38,809	779	256
In the second to fifth years, inclusive	<u>9,746</u>	<u>23,108</u>	<u>292</u>	<u>—</u>
	<u>41,143</u>	<u>61,917</u>	<u>1,071</u>	<u>256</u>

At 31st March, 2006, the Group had total future minimum sublease payments expected to be received under non-cancellable subleases amounting to HK\$600,000 (2005: HK\$1,560,000).

The Group and the Company lease a number of properties under operating leases. The leases run for an initial period of one to four and two years respectively, without option to renew the lease term at the expiry date. The leases include contingent rentals.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

36. FUTURE OPERATING LEASE RECEIVABLES

At 31st March, the total future aggregate minimum lease receipts under non-cancellable operating leases in respect of investment properties are as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within one year	620	367	230	—
In the second to fifth years, inclusive	<u>252</u>	<u>40</u>	<u>77</u>	<u>—</u>
	<u><u>872</u></u>	<u><u>407</u></u>	<u><u>307</u></u>	<u><u>—</u></u>

37. CAPITAL COMMITMENTS

Capital commitments in relation to purchase of property, plant and equipment are as follows:

	Group and Company	
	2006 HK\$'000	2005 HK\$'000
Contracted but not provided for	<u>—</u>	<u>34</u>

38. RELATED PARTY TRANSACTIONS — GROUP

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following material transactions with related parties during the year and in the prior year:

	2006 HK\$'000	2005 HK\$'000
Operating lease rental on land and buildings paid to related companies:		
Stanwick Properties Limited (Note a)	6,019	5,612
Contender Limited (Note b)	10,529	10,662
Consultancy fees paid to a related company (Note c)	2,500	2,200
Interest expense paid to a director (Note d)	<u>—</u>	<u>172</u>

Notes:

- (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 ("Contender"), 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 wholly owned subsidiary of the Company on the ground and first floors of the Shopping Arcade of Hotel Miramar. Mr. Tang Yat Sun, Richard, Dr. Sin Wai Kin and Mr. Cheng Ka On, Dominic, directors of the Company, are directors and shareholders of Miramar. Mr. Yeung Ping Leung, Howard is a director of the Company and Miramar. Pursuant to an offer letter dated 27th March, 2006, a wholly owned subsidiary of the Company and Contender agreed to enter into a tenancy agreement on normal commercial terms relating to shops 1B1 and 1B2, 1st Basement Level of the Shopping Arcade of Hotel Miramar ("Shops 1B1 and 1B2") for a term of three years from 9th June, 2006 to 8th June, 2009 at the monthly rent of HK\$473,430. However, no formal tenancy agreement in respect of Shops 1B1 and 1B2 was signed as at 31st March, 2006.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

38. RELATED PARTY TRANSACTIONS — GROUP (Continued)

Notes: (Continued)

- (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. 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.
- (d) The Group borrowed an unsecured short-term loan of HK\$15,000,000 from a director of the Company. The loan was repayable on demand and was totally repaid during the year ended 31st March, 2005. Interest was charged on the loan at 1.50% per annum.
- (e) Compensation of key management personnel

	2006 HK\$'000	2005 HK\$'000
Total remuneration of directors and other members of key management during the year	<u>4,718</u>	<u>4,277</u>

Further details of directors' remuneration are included in note 13 to the financial statements.

39. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which results from both its operating and investing activities. The Group does not have written risk management policies and guidelines. However, the board of directors meets periodically to analyse and formulate strategies to manage the Group's exposure to market risks, including changes in interest rates and currency exchange rates. Generally, the Group utilises conservative strategies on its risk management. The Group's exposure to market risk is kept to minimum. The Group has not used any derivatives or other instruments for hedging purposes. The Group does not issue derivative financial instruments for trading purposes.

(a) Credit risk

All the Group's cash and cash equivalents are deposited with major banks located in Hong Kong and the PRC.

The Group's maximum exposure to credit risk in the event of the counter parties' failure to perform their obligations as at 31st March, 2006 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated balance sheet. In order to minimise the credit risk, the management of the Group reviews the recoverable amount of each individual debt at each balance sheet date to ensure that adequate impairment loss are made for irrecoverable amounts. In this regard, the directors consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk, with exposure spread over a number of counter parties and customers.

(b) Foreign currency risk

The Group does not have significant foreign currency risk as the sales and purchases are predominantly in Hong Kong Dollars.

(c) Interest rate risk

The Group has no significant interest bearing assets except cash and cash equivalents. The Group's interest rate risk arises from borrowings. The interest rates and terms of repayment are disclosed in note 29.

Notes to the Financial Statements (Continued)

For the year ended 31st March, 2006

39. RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(d) Fair values

The fair values of the Group's current financial assets and liabilities are not materially different from their carrying amount because of the immediate or short term maturity. The fair values of non-current liabilities were not disclosed because their carrying value is not materially different from their fair value.

40. 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.

41. SUBSEQUENT EVENTS

Subsequent to 31st March, 2006, the Group disposed of 350,000 shares in Hong Kong Exchanges and Clearing Limited as detailed in the circular of the Company dated 28th April, 2006.

On 16th June, 2006, the Company obtained the authorisation of the shareholders of the Company for the following matters as detailed in the circular of the Company dated 30th May, 2006:

1. entering into the following agreements with Contender:
 - (a) a tenancy agreement relating to shop units G1-2 and G1A on Ground Floor and shop units AR201-02 and AR217 on 1st Floor of the Shopping Arcade of Hotel Miramar for a term of up to three years from 16th July, 2006 at the prevailing market rent not exceeding that valued by an independent valuer appointed by the Company;
 - (b) a tenancy agreement relating to shops 2B1 and 2B2 on 2nd Basement Level of the Shopping Arcade of Hotel Miramar for a term from the date of delivery of vacant possession of such property by Contender up to the expiry date of the tenancy agreement in respect of shops 1B1 and 1B2 on 1st Basement Level of the said Shopping Arcade at the prevailing market rent not exceeding that valued by an independent valuer appointed by the Company; and
 - (c) a license agreement relating to advertising signboards C1 and C2 at the external wall of Hotel Miramar for a term of three years from the date of delivery of vacant possession of such advertising signboards by Contender; and
2. further disposal of up to 1,874,000 shares of Hong Kong Exchanges and Clearing Limited to independent third parties.

42. COMPARATIVES

Certain comparatives were reclassified to conform with current year's presentation as a result of the change in accounting policies. Further details are disclosed in note 2.