

Management Discussion and Analysis

OVERALL GROUP RESULTS

The results of the Group for the year ended 31st March, 2007 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 25 to 75.

The Group's revenue for the year under review increased by 19% as compared with that of the previous year. The Group's consolidated net profit attributable to the shareholders of the Company for the year was HK\$45,193,000. The earnings per share were HK10.4 cents.

JEWELLERY RETAILING

Turnover of the Group's gold ornament, jewellery, watches, fashion and gifts retailing business for the year increased from HK\$698 million to HK\$839 million.

SECURITIES BROKING

During the year under review, commission income from the securities broking division of the Group increased by 24% as compared with that of the previous year as a result of the blooming Hong Kong stock market. However, the division still faced keen competition within the industry and the introduction of on-line brokerage services by many banks in Hong Kong.

INVESTMENTS

As at 31st March, 2007, the Group held 1,874,000 shares in Hong Kong Exchanges and Clearing Limited amounting to HK\$142,705,000 and certain available-for-sale investments listed outside Hong Kong amounting to HK\$6,953,000.

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

FINANCE

As at 31st March, 2007, the Group's current assets and current liabilities were about HK\$782 million and HK\$225 million respectively. There were bank balances and cash of about HK\$57 million and unsecured bank loans of about HK\$178 million.

Based on the total borrowings of the Group of about HK\$202 million and the capital and reserves attributable to the shareholders of the Company of about HK\$655 million as at 31st March, 2007, the overall borrowings to equity ratio was 31%, which was at a healthy level.

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

Management Discussion and Analysis (Continued)

PROVISION

During the year ended 31st March, 2006, the Company had discovered that a former director of a subsidiary of the Group might have misappropriated securities belonging to certain customers of the Group. At the best estimates of the directors of the Company, such securities had a total market value of about HK\$28,800,000. During the year, the Group made compensation to the relevant customers and a further provision of HK\$126,000 was made. Based on current information, including the findings in the investigation and internal control review reports prepared by a firm of independent professional accountants, the directors of the Company considered that the provisions made were adequate.

In this regard, the Group also has an insurance policy with a cover of HK\$15 million (subject to an excess of HK\$3 million). The net exposure from this event of HK\$16,800,000 and HK\$126,000, representing the market value of the securities alleged to be misappropriated less insurance cover were charged to the consolidated income statements for the two years ended 31st March, 2006 and 2007 respectively.

INTERNAL CONTROL

The Board has engaged an independent division of Grant Thornton to conduct a review of the Group's internal control system during the year that includes the corporate governance practices and the key business processes. An internal control review report (excluding the securities broking division of the Group) was presented to the Audit Committee. The Audit Committee has reviewed the effectiveness of the Group's internal control system covering financial, operational, compliance and risk management controls.

EMPLOYEES AND EMOLUMENT POLICY

As at 31st March, 2007, the Group had approximately 340 employees. The employees (including directors) are remunerated according to the nature of their jobs, experience and contribution to the Group. The Group has an incentive bonus scheme to reward the employees based on their performance. It also provides training and development program to employees to improve the standard of customer services.

The Company has adopted a share option scheme whereby options may be granted to employees and directors of the Group as incentive for them to contribute to the business of the Group. No option has been granted by the Company as at 31st March, 2007.