

# Report of the Directors

The directors would like to present their report together with the audited financial statements for the year ended 31st March, 2007.

## PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

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

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

## RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated income statement on page 25.

The directors declared an interim dividend of HK0.45 cent per ordinary share, totalling HK\$1,958,000. The interim dividend was paid on 12th January, 2007.

The directors recommend the payment of a final dividend of HK1.2 cents per ordinary share, totalling HK\$5,221,000.

## RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity on pages 30 and 31 and note 31 to the financial statements respectively.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st March, 2007, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to HK\$186,678,000 (2006: HK\$188,910,000).

## PROPERTY, PLANT AND EQUIPMENT

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

## FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 77.

## MAJOR CUSTOMERS AND SUPPLIERS

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

### Purchases

— the largest supplier	19%
— five largest suppliers combined	57%

### Sales

— the largest customer	5%
— five largest customers combined	8%

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

## DIRECTORS

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

- \* Mr. Yeung Ping Leung, Howard
- \* Mr. Tang Yat Sun, Richard
- Mr. Cheng Kwai Yin (*passed away on 4th May, 2006*)
- Dr. Sin Wai Kin (*retired by rotation on 31st August, 2006*)
- \* Mr. Cheng Ka On, Dominic
- \* Mr. Yeung Bing Kwong, Kenneth
- \* Ms. Fung Chung Yee, Caroline
- + Mr. Lau To Yee
- + Mr. Cheng Kar Shing, Peter
- Mr. Wong Wei Ping, Martin
- + Mr. Chan Chak Cheung, William
- Mr. Ho Hau Hay, Hamilton
- Mr. Sin Nga Yan, Benedict (*appointed on 4th July, 2006*)
  
- \* *Executive Directors*
- + *Independent Non-executive Directors*

Brief biographical details of the directors are set out on pages 5 and 6.

## Report of the Directors (Continued)

### DIRECTORS (Continued)

In accordance with article 116 of the Company's Articles of Association, Mr. Yeung Ping Leung, Howard, Ms. Fung Chung Yee, Caroline, Mr. Chan Chak Cheung, William and Mr. Ho Hau Hay, Hamilton will retire by rotation at the coming annual general meeting of the Company and, being eligible, have offered themselves for re-election. Details of such directors as required under Rule 13.51(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") are as follows:

**Mr. Yeung Ping Leung, Howard**, aged 50, is the chairman and an executive director of the Company, and an executive director of King Fook Jewellery Group Limited and King Fook Gold & Jewellery Company Limited, two wholly owned subsidiaries of the Company. He is also a director of King Fook Holding Management Limited and Superior Travellers Services Limited, two wholly owned subsidiaries of the Company. He is a director of New World Development Company Limited and Miramar Hotel and Investment Company, Limited (a substantial shareholder of the Company), both are companies listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Mr. Yeung is the younger brother of Mr. Yeung Bing Kwong, Kenneth (an executive director of the Company) and the brother-in-law of Mr. Wong Wei Ping, Martin (a non-executive director of the Company). He, together with other members of his family, control the management of Yeung Chi Shing Estates Limited (a substantial shareholder of the Company). He has no interest in the shares of the Company within the meaning of Part XV of the Securities & Futures Ordinance ("SFO"). He was appointed director and chairman of the Company in 1987 and 1998 respectively.

**Ms. Fung Chung Yee, Caroline**, aged 54, is an executive director and a committee member of the Remuneration Committee of the Company. She is an executive director of King Fook Jewellery Group Limited, a wholly owned subsidiary of the Company. She is also a director of King Fook China Resources Limited, a wholly owned subsidiary of the Company. She is a fellow member of The Association of Chartered Certified Accountants of the United Kingdom. Ms. Fung is a consultant of Yeung Chi Shing Estates Limited, a substantial shareholder of the Company. She has no relationship with any directors or senior management of the Company. She has no interest in the shares of the Company within the meaning of Part XV of SFO. She was appointed director of the Company in 1987.

**Mr. Chan Chak Cheung, William**, aged 59, is an independent non-executive director of the Company and the Chairman of the Audit Committee and Remuneration Committee of the Company. Mr. Chan is a retired partner of PricewaterhouseCoopers after a career spanning 33 years in Canada, Hong Kong and China. He was the partner in charge of China Tax Services at PricewaterhouseCoopers, oversaw the advisory practice of 30 partners and over 500 professional staff in 9 offices; specialised in advising foreign companies on their China entry and expansion strategies, ownership and financial structures, and on mergers and acquisitions. He is a member of the Canadian Institute of Chartered Accountants. Mr. Chan has no relationship with any directors, senior management or substantial or controlling shareholders of the Company. He has no interest in the shares of the Company within the meaning of Part XV of SFO. He was appointed independent non-executive director of the Company in 2004.

**Mr. Ho Hau Hay, Hamilton**, aged 56, is a non-executive director of the Company. Mr. Ho is an independent non-executive director of CITIC Pacific Limited and a non-executive director of New World Development Company Limited, both of these companies are companies listed on the Main Board of the Stock Exchange. He is a director of Dah Chong Hong Holdings Limited. He is an executive director of Honorway Investments Limited and Tak Hung (Holding) Company Limited. He has no relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Ho is deemed to be interested in 3,170,000 shares of the Company within the meaning of Part XV of SFO as such shares are held by Tak Hung (Holding) Company Limited, in which Mr. Ho has a 40% interest. He was appointed director of the Company in 2004.

**DIRECTORS (Continued)**

Save for the arrangement between the Company and Verbal Company Limited (“Verbal”) for providing the services of Mr. Yeung Ping Leung, Howard mentioned below, the above retiring directors do not have any service contract with the Company. They are not appointed for a specific term but each of them is subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company.

Mr. Yeung Ping Leung, Howard and Verbal (in which he has a beneficial interest) received emoluments and fees of HK\$24,000 and HK\$3,882,000 respectively from the Group for the year ended 31st March, 2007. Ms. Fung Chung Yee, Caroline, Mr. Chan Chak Cheung, William and Mr. Ho Hau Hay, Hamilton received directors’ emoluments and fees from the Group for the year ended 31st March, 2007 in the sums of HK\$1,302,000, HK\$250,000 and HK\$15,000 respectively, details of which are set out in note 13 to the financial statements. The emoluments and fees of Mr. Yeung Ping Leung, Howard and Verbal, Ms. Fung Chung Yee, Caroline and Mr. Chan Chak Cheung, William are determined based on the recommendations of the Remuneration Committee with reference to prevailing market rates, and have been approved by the directors of the Company. The fee of Mr. Ho Hau Hay, Hamilton is nominal.

The above retiring directors confirm that save as disclosed above, there is no information which is required to be disclosed pursuant to Rule 13.51(2) of the Listing Rules and there is no other matters that need to be brought to the attention of the shareholders of the Company.

The Company confirms that it has received letters of confirmation of independence from all of the independent non-executive directors in accordance with Rule 3.13 of the Listing Rules and considers that the independent non-executive directors are independent.

The Company has entered into a consultation service agreement with Verbal whereby Verbal provides the services of Mr. Yeung Ping Leung, Howard to the Group for the year ended 31st March, 2007 at fees totalling HK\$3,882,000. Mr. Yeung Ping Leung, Howard and Mr. Tang Yat Sun, Richard are directors of Verbal and Mr. Yeung Ping Leung, Howard has a beneficial interest in Verbal. Save as aforesaid, none of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation. No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

**DIRECTORS’ INTERESTS**

At 31st March, 2007, the interests of the directors and chief executive of the Company in the share capital of the Company as recorded in the register maintained by the Company under section 352 of Part XV of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Number of ordinary shares held			Total	Percentage of shareholding
	Personal	Family	Corporate		
Mr. Tang Yat Sun, Richard	3,585,000	Nil	Nil	3,585,000	0.82%
Mr. Cheng Ka On, Dominic	4,020,000	15,000	Nil	4,035,000	0.93%
Mr. Ho Hau Hay, Hamilton	Nil	Nil	*3,170,000	3,170,000	0.73%

\* These shares are held by Tak Hung (Holding) Co. Ltd. (“Tak Hung”) in which Mr. Ho has a 40% interest. Accordingly, Mr. Ho is deemed to be interested in all these shares held by Tak Hung.

# Report of the Directors (Continued)

## DIRECTORS' INTERESTS (Continued)

Save as disclosed above, as at 31st March, 2007, none of the directors or chief executive of the Company had any interests or short positions in the shares or underlying shares in, or debentures of, the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of Part XV of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

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

1. (a) The Group entered into six tenancy agreements (the "King Fook Leases") on normal commercial terms with Stanwick Properties Limited (a wholly owned subsidiary of Yeung Chi Shing Estates Limited, a substantial shareholder of the Company) on 13th August, 2005 and 4th May, 2007 respectively in respect of premises in King Fook Building, Hong Kong. The leased properties are used as the key retail outlet and the headquarters of the Group.

Major terms of the King Fook Leases are as follows:

### *Basement, Ground Floor and Mezzanine Floor, King Fook Building*

Tenant	Term	Rent per month
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK\$411,520
	16/8/07 to 15/8/09	HK\$450,425

### *3rd Floor, King Fook Building*

Tenant	Term	Rent per month
the Company	2 years from 16/8/05 to 15/8/07	HK\$21,636
	16/8/07 to 15/8/09	HK\$29,120

### *5th Floor, King Fook Building*

Tenant	Term	Rent per month
the Company	2 years from 16/8/05 to 15/8/07	HK\$21,636
	16/8/07 to 15/8/09	HK\$26,460

### *8th Floor, King Fook Building*

Tenant	Term	Rent per month
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK\$21,636
	16/8/07 to 15/8/09	HK\$26,460

## DIRECTORS' INTERESTS (Continued)

*9th Floor, King Fook Building*

Tenant	Term	Rent per month
the Company	2 years from 16/8/05 to 15/8/07	HK\$21,636
	16/8/07 to 15/8/09	HK\$26,460

*10th Floor, King Fook Building*

Tenant	Term	Rent per month
King Fook Jewellery Group Limited	2 years from 16/8/05 to 15/8/07	HK\$21,636
	16/8/07 to 15/8/09	HK\$26,460

- (b) King Fook Jewellery Group Limited entered into a tenancy agreement dated 4th April, 2007 with Fabrico (Mfg) Limited (a wholly owned subsidiary of Yeung Chi Shing Estates Limited) relating to Apartment F, 3rd Floor, Comfort Building, 88 Nathan Road, Kowloon for a term of two years from 1st April, 2007 at the monthly rent of HK\$15,000 exclusive of rates.
- (c) The Company has entered into an agreement with Stanwick Properties Limited pursuant to which the Company is granted the right to use the furniture and fixture at 3rd Floor of King Fook Building (which is used by the Group as conference rooms) at the monthly fee of HK\$25,480 for a term of two years from 16th August, 2007.
- (d) The Company has also entered into a licence agreement (the "Licence Agreement") with Yeung Chi Shing Estates Limited pursuant to which the Company was granted an exclusive right for the design, manufacture and distribution of gold and jewellery products under the trademark of "King Fook" on a worldwide basis for a total consideration of HK\$1. The contract commenced from 7th December, 1998 and does not fix the termination date.

Mr. Yeung Ping Leung, Howard and Mr. Yeung Bing Kwong, Kenneth, directors of the Company, together with other members of their family control the management of Yeung Chi Shing Estates Limited.

2. (a) King Fook Jewellery Group Limited (a wholly owned subsidiary of the Company) entered into a tenancy agreement (the "First Miramar Lease") with Contender Limited (a wholly owned subsidiary of Miramar Hotel and Investment Company, Limited, a substantial shareholder of the Company) on 28th April, 2004 and 17th October, 2006 respectively on normal commercial terms in respect of shop units G1-2 and G1A on the ground floor and shop units AR201-02 and AR217 on the first floor of Hotel Miramar Shopping Arcade, Kowloon, Hong Kong. The leased shops are the key retail outlets of the Group.

Major terms of the First Miramar Lease are as follows:

Term	Rent per month
3 years from 16/7/03 to 15/7/06	HK\$897,290
16/7/06 to 15/7/09	HK\$1,100,000

# Report of the Directors (Continued)

## DIRECTORS' INTERESTS (Continued)

- (b) Top Angel Limited (a wholly owned subsidiary of the Company) and Contender Limited entered into a tenancy agreement (the "Second Miramar Lease") on 6th July, 2006 on normal commercial terms relating to shops 1B1 and 1B2, 1st Basement Level, Hotel Miramar Shopping Arcade, Kowloon, Hong Kong. The leased shops are used as a deluxe style fashion outlet to expand the Group's business activities.

Major terms of the Second Miramar Lease are as follows:

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

- (c) Top Angel Limited and Contender Limited have agreed to enter into a licence agreement relating to advertising signboards C1 and C2 at the external wall of Hotel Miramar, 118-130 Nathan Road, Tsimshatsui, Kowloon for a term of three years from 14th August, 2006 at the monthly licence fee of HK\$40,000.
- (d) Top Angel Limited and Contender Limited have entered into a licence agreement relating to the signboard and showcases at Ground Floor Entrance facing Nathan Road of Hotel Miramar Shopping Arcade for a term of three years from 9th June, 2006 at the licence fee of HK\$1 for the whole licence period.

Mr. Tang Yat Sun, Richard, Mr. Cheng Ka On, Dominic and Dr. Sin Wai Kin (who retired by rotation on 31st August, 2006) are directors and shareholders of Miramar Hotel and Investment Company, Limited. Mr. Yeung Ping Leung, Howard is a director of Miramar Hotel and Investment Company, Limited.

The above transactions (except the Licence Agreement) constituted continuing connected transactions not exempt under rule 14A.33 of the Listing Rules. Details of these transactions and other related party transactions for the year ended 31st March, 2007 are set out in note 36 to the financial statements.

The independent non-executive directors of the Company have reviewed the above continuing connected transactions pursuant to rule 14A.37 of the Listing Rules and confirmed that the transactions have been entered into:

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

The auditors of the Company have reviewed the continuing connected transactions for the year ended 31st March, 2007 pursuant to rule 14A.38 of the Listing Rules and advised the board of directors in writing with a copy provided to the Stock Exchange that the transactions:

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

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

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

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

Mr. Cheng Kar Shing, Peter, an independent non-executive director of the Company, is a director of Chow Tai Fook Jewellery Co. Ltd. ("Chow Tai Fook"). The gold ornament, jewellery and watches retailing business of Chow Tai Fook may compete with similar business of the Group.

Mr. Sin Nga Yan, Benedict is a director and general manager of Myer Jewelry Manufacturer Limited. The trading of fine and costume jewellery business of Myer Jewelry Manufacturer Limited and its subsidiaries ("Myer Group") may compete with similar business of the Group.

Mr. Tang Yat Sun, Richard is a director of Hang Seng Bank Limited ("Hang Seng"). The bullion trading, securities broking and money exchange business of Hang Seng may compete with similar business of the Group.

The Group has experienced senior management independent of the above-named directors to conduct its business and is therefore capable of carrying on its business independently of and at arm's length from the respective businesses of Chow Tai Fook, Myer Group and Hang Seng.

**GOLD LOANS AND BANK LOANS**

Particulars of gold loans and bank loans of the Group are set out under current and non-current liabilities on the consolidated balance sheet and in notes 27 and 28 to the financial statements.

**SUBSTANTIAL SHAREHOLDERS**

At 31st March, 2007, the following persons (other than a director or chief executive of the Company) had interests in the share capital of the Company as recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO:

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

Notes:

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

Save as disclosed above, as at 31st March, 2007, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.



# Report of the Directors (Continued)

## PURCHASE, SALE OR REDEMPTION OF SHARES

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

## SHARE OPTION SCHEME

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

## REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

Details of the remuneration of directors and senior management paid by the Group for the year ended 31st March, 2007 are set out in notes 13, 14 and 36(d) to the financial statements respectively.

## PUBLIC FLOAT

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

## AUDITORS

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

On behalf of the Board

**Yeung Ping Leung, Howard**  
*Chairman*

Hong Kong, 6th July, 2007