

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants ("HKSA"). They have been prepared on the historical cost convention except that, as disclosed in the accounting policies below, investment properties (see Note 1(e)) and investments (see Note 1(f)) are stated at fair value.

Commencing from 1st April 2003, Hang Fung Gold Technology Limited ("the Company") and its subsidiaries (together "the Group") have adopted the revised Statement of Standard Accounting Practice Number 12 "Income taxes" ("SSAP 12") issued by the HKSA, under which deferred taxation is provided in full on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. In prior years, deferred taxation was provided in respect of significant timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has no significant effect on the Group's results for the prior accounting periods.

(b) Consolidation

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31st March.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated accounts from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on disposal of a subsidiary represents the difference between the proceeds of the disposal and the Group's share of its net assets together with any unamortised goodwill or negative goodwill.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(c) Subsidiaries

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

In the Company's balance sheet, investment in subsidiaries is stated at cost less accumulated impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Fixed assets and depreciation

Fixed assets, other than investment properties, are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Major expenditures on modifications and betterments of fixed assets which will increase their future economic benefits are capitalised, while expenditures on maintenance and repairs of fixed assets are expensed when incurred.

Leasehold land is depreciated over the period of the lease, while other fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses and estimated residual value over their estimated useful lives on a straight-line basis. The principal annual rates are as follows:

| | |
|--|------------|
| Land and buildings | 5% |
| Leasehold improvements, furniture and office equipment | 12% to 20% |
| Machinery, equipment and tools | 15% to 25% |
| Motor vehicles | 20% |

The depreciation methods and useful lives are reviewed periodically to ensure that the methods and rates of depreciation are consistent with the expected pattern of economic benefits from the fixed assets.

Fixed assets held under finance leases are recorded and depreciated on the same basis as described above.

The gain or loss on disposal of a fixed asset, other than investment properties, is the difference between the net sales proceeds and the then carrying amount of the relevant asset, and is recognised in the profit and loss account.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(e) Investment properties

Investment properties are interests in land and buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arms length.

Investment properties are included in the balance sheet at their open market value on the basis of an annual valuation by independent qualified valuers. Changes in the value of investment properties are dealt with in the investment properties revaluation reserve unless the balance of this reserve is insufficient to cover a deficit on a portfolio basis, in which case the net deficit is charged to the profit and loss account. Where a deficit has previously been charged to the profit and loss account and a revaluation surplus subsequently arises, this surplus is credited to the profit and loss account to the extent of the deficit previously charged. When an investment property is disposed of, previously recognised revaluation surpluses are reversed and the gain or loss on disposal reported in the profit and loss account is determined based on the net disposal proceeds less the original cost.

No depreciation is provided for investment property unless the unexpired lease term is 20 years or less, in which case depreciation is provided on the then carrying value over the unexpired lease term.

(f) Investments

Short-term investments are carried at fair value. At each balance sheet date, the net unrealised gains or losses arising from the changes in fair value of short-term investments are recognised in the profit and loss account. Profits or losses on disposal of short-term investments representing the difference between the net sales proceeds and the carrying amounts, are recognised in the profit and loss account as they arise.

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the first-in, first-out basis, comprises materials, direct labour and an appropriate proportion of all production overhead expenditure. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

(h) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the balance sheet are stated net of such provision, if any.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(i) Impairment of assets

Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss representing the difference between the carrying amount and the recoverable amount of an asset is recognised in the profit and loss account. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Reversal of an impairment loss of an asset recognised in prior years is recorded when there is an indication that the impairment loss recognised for the asset no longer exists or has decreased. The reversal is recorded in the profit and loss account.

(j) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Provisions are reviewed regularly and adjusted to reflect the current best estimate. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(k) Revenue recognition

Revenue is recognised when the outcome of a transaction can be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group. Revenue is recognised on the following bases:

(i) Sales revenue

Revenue from sales of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered/shipped to customers and title has passed.

(ii) Rental income

Rental income is recognised on a straight-line basis over the period of the relevant leases.

(iii) Interest income

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

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(m) Assets under leases

(i) Finance leases

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. Finance leases are capitalised at the inception of the leases at the lower of the fair value of the leased assets or the present value of the minimum lease payments. Each lease payment is allocated between the capital and finance charges so as to achieve a constant rate on the capital balances outstanding. The corresponding rental obligations, net of finance charges, are included in non-current liabilities or current liabilities where appropriate. The finance charges are charged to the profit and loss account over the lease periods.

(ii) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(n) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service 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 Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(n) Employee benefits (continued)

(ii) Pension obligations

The Group's contributions to defined contribution retirement schemes are expensed as incurred.

(o) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the accounts when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(q) Foreign currency translation

Companies within the Group maintain their books and records in Hong Kong dollars. Transactions in other currencies during the year are translated into Hong Kong dollars at the applicable rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in other currencies are translated into Hong Kong dollars at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the profit and loss account in which they arise.

(r) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held at call with banks, cash investments with a maturity of three months or less from date of investment, and bank overdrafts.

Notes to the Accounts

1 PRINCIPAL ACCOUNTING POLICIES (continued)

(s) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of fixed assets, investment properties, inventories, receivables and other operating assets and exclude prepaid taxes. Segment liabilities comprise operating liabilities and exclude taxation. Capital expenditure comprises additions to fixed assets.

In respect of geographical segment reporting, sales are based on the location of deliveries or the destination of shipments of goods. Total assets and capital expenditure are where the assets are located.

2 RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Significant balances and transactions with related parties are summarised below:

(a) Details of the amount due to a director were:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|------------------|--------------------------------|------------------|
| Dr. Lam Sai Wing | 7,736 | 3,519 |

The balance with the director is unsecured, non-interest bearing and without pre-determined repayment terms.

(b) The Group's banking facilities are secured by, among others, mortgages over certain properties owned by Dr. Lam Sai Wing, a director of the Company, and assignment of the benefits in respect of a keyman insurance of Dr. Lam Sai Wing amounting to HK\$20,000,000 (see Note 34).

Notes to the Accounts

3 TURNOVER AND REVENUE

Turnover and revenue consisted of:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|-------------------------|-------------------------|
| Sales of goods | 2,067,608 | 1,700,804 |
| Rental income | 66 | 63 |
| Turnover | 2,067,674 | 1,700,867 |
| Interest income | 1,062 | 3,583 |
| Gain resulting from liquidation of a subsidiary | – | 3,091 |
| Other revenue/income | 1,062 | 6,674 |
| Total revenue | 2,068,736 | 1,707,541 |

4 OPERATING PROFIT

Operating profit was determined after charging and crediting the following items:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|-------------------------|-------------------------|
| After charging – | | |
| Employment costs (including directors' emoluments) (<i>Note 6</i>) | 74,971 | 63,690 |
| Advertising and promotion costs | 24,954 | 22,578 |
| Operating lease rentals in respect of | | |
| – office, shop and factory premises | 13,445 | 8,954 |
| – machinery and equipment | – | 37 |
| Depreciation of fixed assets | | |
| – owned assets | 96,699 | 89,048 |
| – assets held under finance leases | 12,397 | 17,892 |
| Net loss on disposal of fixed assets | 985 | 3,934 |
| Deficit on revaluation of an investment property | – | 230 |
| Provision for slow-moving and obsolete inventories | 1,324 | 1,000 |
| Unrealised loss on revaluation of gold loans | 22,879 | 601 |
| Auditors' remuneration | 988 | 1,018 |
| After crediting – | | |
| Interest income from | | |
| – bank deposits | 1,062 | 1,825 |
| – amount due from an associate | – | 1,758 |
| Surplus on revaluation of an investment property | 100 | – |
| Unrealised gain on unlisted investments | 194 | 241 |
| Net exchange gains | 3,806 | 1,789 |
| Rental income, less outgoings | 54 | 53 |

Notes to the Accounts

5 FINANCE COSTS

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Interest on | | |
| – bank overdrafts and borrowings wholly repayable within five years | 22,597 | 20,520 |
| – gold loans wholly repayable within five years | 868 | 1,896 |
| – bank borrowings wholly repayable after five years | 404 | 455 |
| – finance leases | 1,241 | 1,670 |
| | 25,110 | 24,541 |

6 EMPLOYMENT COSTS

Employment costs, including directors' emoluments, consisted of:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Salaries, wages, commission and allowances | 70,465 | 59,960 |
| Pension costs – contributions to defined contribution plans and provision for long-service payments | 4,506 | 3,730 |
| | 74,971 | 63,690 |

7 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments were:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|---|--------------------------------|-------------------------|
| Fees for executive directors | – | – |
| Fees for non-executive director | – | – |
| Fee for independent non-executive directors | 120 | 120 |
| Other emoluments for executive directors | | |
| – basic salaries and allowances | 2,679 | 1,263 |
| – bonus (i) | – | – |
| – contributions to pension scheme | 24 | 24 |
| | 2,823 | 1,407 |

(i) The Company's executive directors are entitled to discretionary bonus not exceeding 5% of the Group's consolidated profit attributable to shareholders as determined by the Company's board of directors.

Notes to the Accounts

7 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

During the year, the two executive directors waived emoluments totalling of approximately HK\$5,094,000 (2003: HK\$6,460,000) in respect of their entitlement to salaries and allowances according to service contracts. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year (2003: Nil).

During the year, 6,320,000 options (2003: Nil) were granted to the executive directors of the Company under the Company's employee share option scheme (see Note 27) at an exercise price of HK\$1.58 per share, representing the closing price of the Company's share on the date of grant. No employee share options were exercised by the executive directors during the year (2003: Nil). The directors' emoluments reflected in the accounts have not included the benefits derived or to be derived from the share options granted during the year.

The emoluments of directors fell within the following bands:

| | Number of directors | |
|-------------------------------------|----------------------------|------|
| | 2004 | 2003 |
| Executive directors | | |
| – Nil to HK\$1,000,000 | 1 | 2 |
| – HK\$2,000,001 to HK\$2,500,000 | 1 | – |
| Non-executive director | | |
| – Nil to HK\$1,000,000 | 1 | 1 |
| Independent non-executive directors | | |
| – Nil to HK\$1,000,000 | 2 | 2 |
| | 5 | 5 |

- (b) The five individuals whose emoluments were the highest in the Group for the year included one (2003: one) director, whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining four (2003: four) individuals were as follows:

| | 2004 | 2003 |
|---------------------------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Basic salaries and allowances | 2,531 | 1,916 |
| Bonus | – | – |
| Contributions to pension scheme | 48 | 48 |
| | 2,579 | 1,964 |

Notes to the Accounts

7 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS (continued)

The emoluments fell within the following bands:

| | Number of individuals | |
|----------------------------------|------------------------------|------|
| | 2004 | 2003 |
| – Nil to HK\$500,000 | 2 | 3 |
| – HK\$500,001 to HK\$1,000,000 | 1 | 1 |
| – HK\$1,000,001 to HK\$1,500,000 | 1 | – |

During the year, no emolument was paid or payable to the five highest paid individuals (including directors and other employees) as inducement to join or upon joining the Group or as compensation for loss of office (2003: Nil).

8 TAXATION

Taxation consisted of:

| | 2004 | 2003 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Current taxation | | |
| – Hong Kong profits tax | (1,845) | (2,968) |
| – Write-back of over-provision of Mainland China taxes in prior years (<i>Note 24</i>) | 8,893 | 7,414 |
| | 7,048 | 4,446 |
| Deferred taxation relating to the origination and reversal of temporary differences | (5,619) | (47) |
| Deferred taxation resulting from an increase in taxation rate | – | (1,752) |
| | (5,619) | (1,799) |
| | 1,429 | 2,647 |

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 16%) on the estimated assessable profit arising in or derived from Hong Kong. No Mainland China enterprise income tax has been provided as the Group had no profit subject to such tax during the year.

Notes to the Accounts

8 TAXATION (continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the profits tax rate of Hong Kong, the home country of the Group, and the reconciliation was as follows:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Profit before taxation | 60,350 | 80,853 |
| Calculated at a taxation rate of 17.5% (2003: 16%) | 10,561 | 12,936 |
| Tax effect of income not subject to taxation | (3,323) | (12,444) |
| Tax effect of expenses not deductible for taxation purposes | 1,209 | 2,523 |
| Utilisation of previously unrecognised tax losses | (983) | – |
| Increase in opening net deferred tax liabilities resulting from an increase in taxation rate | – | 1,752 |
| Write-back of over-provision of Mainland China taxes in prior years | (8,893) | (7,414) |
| Taxation | (1,429) | (2,647) |

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders included a profit of approximately HK\$6,075,000 (2003: HK\$45,556,000) dealt with in the accounts of the Company.

10 DIVIDENDS

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Interim dividend of HK 1.2 cents (2003: Nil) per share | 6,730 | – |
| Special dividend of HK 0.8 cent (2003: Nil) per share | 4,486 | – |
| Proposed final dividend of HK 0.6 cent (2003: Nil) per share | 3,365 | – |
| | 14,581 | – |

On 22nd July 2004, the Company's directors proposed a final dividend of HK 0.6 cent per share (2003: Nil) payable in cash. This proposed dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31st March 2005.

Notes to the Accounts

11 EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31st March 2004 is based on the consolidated profit attributable to shareholders of approximately HK\$61,779,000 (2003: HK\$83,500,000) and on the weighted average number of approximately 522,818,000 shares (2003: 528,248,000 shares) in issue during the year, after adjusting for the effect of the share consolidation described in Note 26.

The calculation of diluted earnings per share for the year ended 31st March 2004 is based on the consolidated profit attributable to shareholders of approximately HK\$61,779,000 (2003: HK\$83,500,000) and on the weighted average number of approximately 530,490,000 shares (528,410,000 shares) in issue, after adjusting for the potential dilutive effect of outstanding employee share options and the effect of the share consolidation described in Note 26.

12 FIXED ASSETS**(a) Movements**

| | 2004 | | | | | 2003 |
|--------------------------|--------------------------------|--|--|----------------------------|-------------------|-------------------|
| | Land and buildings HK\$'000 | Leasehold improvements, furniture and office equipment HK\$'000 | Machinery, equipment and tools HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 | Total HK\$'000 |
| Cost | | | | | | |
| Beginning of year | 22,000 | 246,102 | 462,069 | 2,233 | 732,404 | 657,614 |
| Additions | - | 45,270 | 96,890 | 1,411 | 143,571 | 145,139 |
| Disposals | - | (700) | (18,825) | - | (19,525) | (70,349) |
| End of year | 22,000 | 290,672 | 540,134 | 3,644 | 856,450 | 732,404 |
| Accumulated depreciation | | | | | | |
| Beginning of year | 2,305 | 58,809 | 285,938 | 1,202 | 348,254 | 307,729 |
| Provision for the year | 1,100 | 20,813 | 86,755 | 428 | 109,096 | 106,940 |
| Disposals | - | (175) | (18,365) | - | (18,540) | (66,415) |
| End of year | 3,405 | 79,447 | 354,328 | 1,630 | 438,810 | 348,254 |
| Net book value | | | | | | |
| End of year | 18,595 | 211,225 | 185,806 | 2,014 | 417,640 | 384,150 |
| Beginning of year | 19,695 | 187,293 | 176,131 | 1,031 | 384,150 | 349,885 |

Notes to the Accounts

12 FIXED ASSETS (continued)

(b) Land and buildings

Land and buildings are located in Hong Kong and are held under medium-term leases expiring in 2047.

(c) Pledge of assets

Land and buildings and furniture with an aggregate net book value of approximately HK\$86,292,000 (2003: HK\$43,044,000) are mortgaged/pledged as collateral for the Group's banking facilities (see Note 34).

(d) Finance leases

Certain machinery, equipment and tools and motor vehicles were purchased under finance leases. Details of these assets were as follows:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--------------------------------|--------------------------------|-------------------------|
| Cost | 61,987 | 89,461 |
| Less: Accumulated depreciation | (32,521) | (36,203) |
| Net book value | 29,466 | 53,258 |
| Depreciation for the year | 12,397 | 17,892 |

13 INVESTMENT PROPERTY

Movements were:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|----------------------------------|--------------------------------|-------------------------|
| Beginning of year | 1,220 | 1,450 |
| Surplus/(Deficit) on revaluation | 100 | (230) |
| End of year | 1,320 | 1,220 |

The investment property is located in Hong Kong and is held under a long-term lease. It is stated at open market value at 31st March 2004 as determined by DTZ Debenham Tie Leung Limited, an independent firm of qualified valuers. The investment property of approximately HK\$1,320,000 (2003: Nil) is pledged as collateral for the Group's banking facilities (see Note 34).

Notes to the Accounts

13 INVESTMENT PROPERTY (continued)

Details of the investment property as at 31st March 2004 were as follows:

| Location | Group's interest | Existing use |
|---|------------------|--------------|
| Flat B4 on 14th Floor, Peace Building, 3 Peace Avenue, Ho Man Tin, Kowloon, Hong Kong | 100% | Residential |

14 INVESTMENT IN SUBSIDIARIES

In the Company's balance sheet, investment in subsidiaries consisted of:

| | 2004 HK\$'000 | 2003 HK\$'000 |
|--|------------------|------------------|
| Unlisted shares, at cost | 158,743 | 158,743 |
| Due from subsidiaries | 418,396 | 321,978 |
| | 577,139 | 480,721 |
| Less: Accumulated impairment losses and provision against amounts due from subsidiaries | (175,148) | (182,130) |
| | 401,991 | 298,591 |

The amounts due from subsidiaries are unsecured and non-interest bearing.

As at 31st March 2004, the Company had given guarantees to banks amounting to approximately HK\$714,349,000 (2003: HK\$555,974,000) to secure banking facilities of certain subsidiaries (see Note 32).

Details of the principal subsidiaries as at 31st March 2004 were as follows:

| Name | Place of incorporation/ operations | Issued and fully paid capital | Percentage of equity interest held (i) | Principal activities |
|---|--|---|---|---|
| Hang Fung Jewellery Company Limited | Hong Kong | Class A (non-voting) ordinary – HK\$4 (ii) Class B (voting) ordinary – HK\$2 | – 100% | Manufacture and selling of gold products, other precious metal products and jewellery products |
| Hang Fung Development International Company Limited | Hong Kong | HK\$2 | 100% | Retailing of gold products, other precious metal products and jewellery products |

Notes to the Accounts

14 INVESTMENT IN SUBSIDIARIES (continued)

| Name | Place of incorporation/ operations | Issued and fully paid capital | Percentage of equity interest held (i) | Principal activities |
|---|---------------------------------------|---|---|--|
| Hang Fung Jewellery (International) Company Limited | Hong Kong | HK\$2 | 100% | Retailing of gold products, other precious metal products and jewellery products |
| Hang Fung Jewellery (Shenzhen) Co. Ltd. (iii) | Mainland China | HK\$25,000,000 | 100% | Manufacture of gold products, other precious metal products and jewellery products |
| Kai Hang Jewellery Company Limited | Hong Kong | Class A (non-voting) ordinary – HK\$10,002 (ii) Class B (voting) ordinary – HK\$2 | – 100% | Property holding |
| Macadam Profits Limited | British Virgin Islands | US\$2 | 100% | Investment holding |
| Soycue Limited | British Virgin Islands | US\$1 | 100% | Inactive |

Notes:

- (i) The shares of Macadam Profits Limited are held directly by the Company. The shares of other subsidiaries are held indirectly.
- (ii) The Class A (non-voting) ordinary shares have no voting rights, are not entitled to dividends unless dividends paid to holders of Class B (voting) ordinary shares exceed HK\$900,000,000,000 in a financial year, and are not entitled to distribution of the companies' assets unless each Class B (voting) ordinary shareholder has been returned its paid-up capital together with a premium of HK\$900,000,000,000.
- (iii) Hang Fung Jewellery (Shenzhen) Co. Ltd. is a wholly foreign owned enterprise established in Mainland China to be operated for 30 years up to 2028.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2004.

Notes to the Accounts

15 INVESTMENT IN ASSOCIATES

In February 2003, the Group disposed of its entire 49.9% interest in New Epoch Information (BVI) Company Limited ("NEI") and receivables from NEI to New Epoch Holdings International Limited, which owned the remaining 50.1% interest in NEI, in return for 700,000,000 shares in the Company of HK\$0.01 each (see Note 26), which were valued at approximately HK\$60,900,000. In this connection, the Group recognised a disposal gain of approximately HK\$48,665,000, net of costs of disposal of approximately HK\$2,096,000.

16 INVENTORIES

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|------------------|--------------------------------|-------------------------|
| Raw materials | 213,107 | 107,883 |
| Work-in-progress | 155,291 | 199,338 |
| Finished goods | 232,960 | 178,088 |
| | 601,358 | 485,309 |

As at 31st March 2004, inventories of approximately HK\$8,699,000 (2003: HK\$551,000) were stated at net realisable value.

Certain inventories were held under trust receipts bank loan arrangements (see Note 20).

17 ACCOUNTS RECEIVABLE

For wholesale and trading sales, the Group grants to majority of its customers credit periods ranging from 30 days to 120 days. Retail sales are primarily settled by cash or credit cards upon deliveries.

The ageing analysis of accounts receivable was as follows:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| 0 to 90 days | 331,474 | 226,370 |
| 91 to 180 days | 67,883 | 81,676 |
| 181 to 270 days | 4,429 | 13,543 |
| | 403,786 | 321,589 |
| Less: Provision for bad and doubtful debts | (10,000) | (10,000) |
| | 393,786 | 311,589 |

Notes to the Accounts

18 INVESTMENTS

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|-------------------------------|--------------------------------|-------------------------|
| Unlisted investments, at cost | 9,126 | 5,226 |
| Add: Unrealised gain | 288 | 94 |
| | 9,414 | 5,320 |

Investments represent units in investment funds. Investments of approximately HK\$9,251,000 (2003: HK\$5,166,000) are pledged as collateral for the Group's banking facilities (see Note 34).

19 BANK DEPOSITS

As at 31st March 2004, bank deposits of approximately HK\$100,624,000 (2003: HK\$105,190,000) were pledged as collateral for the Group's banking facilities (see Note 34).

As at 31st March 2004, bank deposits of approximately HK\$2,744,000 (2003: HK\$964,000) were denominated in Chinese Renminbi, which is not a freely convertible currency in the international market and its exchange rate is determined by the Government of the People's Republic of China.

20 SHORT-TERM BANK BORROWINGS

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|-----------------------------|--------------------------------|-------------------------|
| Bank overdrafts | 36 | 3,829 |
| Trust receipts bank loans | 312,669 | 292,035 |
| Gold loans from banks | 140,934 | 27,964 |
| Other short-term bank loans | 87,056 | 87,586 |
| | 540,695 | 411,414 |

Short-term bank borrowings bear interest at rates ranging from approximately 1.6% to 6.0% per annum (2003: 1.9% to 6.4% per annum). Refer to Note 34 for details of the Group's banking facilities.

Notes to the Accounts

21 LONG-TERM BANK LOANS

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Amounts repayable | | |
| – Within one year | 66,290 | 67,951 |
| – In the second year | 23,266 | 68,068 |
| – In the third to fifth year | 21,452 | 23,052 |
| – After the fifth year | 16,857 | 9,371 |
| | 127,865 | 168,442 |
| Less: Amounts repayable within one year included under current liabilities | (66,290) | (67,951) |
| | 61,575 | 100,491 |

Long-term bank loans bear interest at rates ranging from approximately 1.6% to 6.3% per annum (2003: 2.9% to 6.4% per annum). Refer to Note 34 for details of the Group's banking facilities.

22 FINANCE LEASE OBLIGATIONS

Finance lease obligations, net of future finance charges, consisted of:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|--|--------------------------------|-------------------------|
| Total minimum lease payments under finance leases | | |
| – Within one year | 13,394 | 22,423 |
| – In the second year | 4,049 | 13,252 |
| – In the third to fifth year | 1,894 | 5,876 |
| | 19,337 | 41,551 |
| Less: Future finance charges | (756) | (1,967) |
| | 18,581 | 39,584 |
| The present value of finance lease obligations was as follows: | | |
| – Within one year | 12,874 | 21,184 |
| – In the second year | 3,862 | 12,741 |
| – In the third to fifth year | 1,845 | 5,659 |
| | 18,581 | 39,584 |
| Less: Amounts repayable within one year included under current liabilities | (12,874) | (21,184) |
| | 5,707 | 18,400 |

Notes to the Accounts

23 ACCOUNTS PAYABLE

The ageing analysis of accounts payable was as follows:

| | 2004 | 2003 |
|-----------------|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| 0 to 90 days | 103,023 | 64,756 |
| 91 to 180 days | 10,975 | 4,722 |
| 181 to 270 days | 1,330 | 2,601 |
| | 115,328 | 72,079 |

24 TAXATION PAYABLE

| | 2004 | 2003 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| General provision for Mainland China taxes (i) | 12,477 | 21,370 |

Note:

- (i) Prior to 1st April 1999, the Group earned contract processing fees based on the utilisation of equipment and technology provided by the Group to its Mainland China contracting partners, and provision for Mainland China taxes in relation to these fees have been made. The amount of such provision is reviewed periodically and will be written back if it is unlikely that it would be crystallised after carrying over the provision for a period of six years.

25 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2003: 17.5%).

Movements of deferred tax liabilities were:

| | 2004 | 2003 |
|--|-----------------|----------|
| | HK\$'000 | HK\$'000 |
| Beginning of year | 20,486 | 18,687 |
| Deferred taxation charged to profit and loss account (<i>Note 8</i>) | 5,619 | 1,799 |
| End of year | 26,105 | 20,486 |

As at 31st March 2004, the Group had an unprovided deferred tax assets of approximately HK\$1,859,000 (2003: HK\$1,849,000), primarily representing the tax effect of cumulative tax losses (subject to agreement by relevant tax authority) which can be carried forward indefinitely.

Notes to the Accounts

25 DEFERRED TAXATION (continued)

The movements in deferred tax (assets)/liabilities prior to offsetting of balances within the same taxation jurisdiction were as follows:

| | Accelerated tax depreciation | Provisions | Accumulated tax losses | Net deferred tax liabilities |
|--|---|-------------------|-----------------------------------|---|
| | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At 1st April 2002 | 19,895 | (1,208) | – | 18,687 |
| Charged/(Credited) to profit and loss account | 1,886 | (87) | – | 1,799 |
| At 31st March 2003 | 21,781 | (1,295) | – | 20,486 |
| Charged/(Credited) to profit and loss account | 6,716 | (116) | (981) | 5,619 |
| At 31st March 2004 | 28,497 | (1,411) | (981) | 26,105 |

26 SHARE CAPITAL

Movements were:

| | 2004 | | 2003 | |
|---|--------------------------------------|---------------------------------------|-----------------------------|------------------------------|
| | Number of shares '000 | Nominal value HK\$'000 | Number of shares '000 | Nominal value HK\$'000 |
| Authorised – | | | | |
| Beginning of year | 20,000,000 | 200,000 | 20,000,000 | 200,000 |
| Share consolidation (i) | (18,000,000) | – | – | – |
| End of year | 2,000,000 | 200,000 | 20,000,000 | 200,000 |
| Issued and fully paid – | | | | |
| Beginning of year | 4,690,640 | 46,906 | 5,332,000 | 53,320 |
| Share consolidation (i) | (4,221,576) | – | – | – |
| Issue of shares | | | | |
| – placement (ii) | 72,470 | 7,247 | – | – |
| – exercise of employee share options (iii) | 19,260 | 1,926 | 60,200 | 602 |
| Repurchase of shares (iv) | – | – | (701,560) | (7,016) |
| End of year | 560,794 | 56,079 | 4,690,640 | 46,906 |

Notes to the Accounts

26 SHARE CAPITAL (continued)

Notes:

(i) Share consolidation

With effect from 2nd May 2003, every ten issued and unissued shares of the Company of HK\$0.01 each were consolidated into one share of HK\$0.1 each. As a consequence, the authorised share capital of the Company became 2,000,000,000 shares of HK\$0.1 each, of which 469,064,000 shares of HK\$0.1 each were issued and fully paid.

(ii) Issue of shares pursuant to a placement

In September 2003, the Company issued 72,470,000 shares of HK\$0.1 each for a cash consideration of HK\$1.31 per share, and raised net proceeds of approximately HK\$91,978,000.

(iii) Issue of shares upon exercise of employee share options

During the year ended 31st March 2004, the Company issued 19,260,000 shares of HK\$0.1 each (2003: 60,200,000 shares of HK\$0.01 each) for an aggregate cash consideration of approximately HK\$16,563,000 (2003: HK\$6,562,000) as a consequence of the exercise of employee share options (see Note 27).

(iv) Repurchase of shares

In July 2002, the Company repurchased 1,560,000 shares in the Company of HK\$0.01 each (before the share consolidation described in Note (i) above) for an aggregate cash consideration of approximately HK\$178,000, including transaction costs. These shares were subsequently cancelled. The nominal value of the cancelled shares of approximately HK\$16,000 was transferred from contributed surplus to capital redemption reserve.

In February 2003, the Company received 700,000,000 shares in the Company of HK\$0.01 each (before the share consolidation described in Note (i) above) as consideration for the disposal of its entire interest in and receivables from an associate (see Note 15). These shares were subsequently cancelled. The nominal value of the cancelled shares of HK\$7,000,000 was transferred from contributed surplus to capital redemption reserve.

27 EMPLOYEE SHARE OPTIONS

Effective from August 2002, the Company has adopted a new employee share option scheme ("the New Scheme") and terminated the old employee share option scheme adopted in 1999 ("the Old Scheme"). Under the New Scheme, the Company may grant options to the Group's employees (including executive directors of the Company) to subscribe for share in the Company, subject to a maximum of 30% of the nominal value of the issued share capital of the Company from time to time excluding for this purpose any shares issued on the exercise of options. The exercise price will be determined by the Company's board of directors and shall at least be the highest of (i) the closing price of the Company's shares on the date of grant of the options, (ii) an average closing price of the Company's shares for the five trading days immediately preceding the date of grant of the options, and (iii) the nominal value of the Company's shares of HK\$0.1 each. All options granted under the Old Scheme will continue to be valid and exercisable in accordance with the rules of the Old Scheme.

Notes to the Accounts

27 EMPLOYEE SHARE OPTIONS (continued)

Movements of employee share options during the year ended 31st March 2004 were (Note – adjusted for the share consolidation described in Note 26):

| Date of grant | Exercise period | Exercise price | Beginning of year '000 | Number of share options | | End of year '000 |
|--------------------|---|----------------|---------------------------|---------------------------------|-----------------------------------|---------------------|
| | | | | Granted during the year '000 | Exercised during the year '000 | |
| Old Scheme | | | | | | |
| 9th June 2000 | 9th June 2001 to 26th February 2009 | HK\$1.09 | 25,480 | – | – | 25,480 |
| 10th April 2002 | 10th April 2003 to 26th February 2009 | HK\$1.49 | 21,820 | – | – | 21,820 |
| | | | 47,300 | – | – | 47,300 |
| New Scheme | | | | | | |
| 19th February 2003 | 31st July 2003 to 27th August 2012 | HK\$0.86 | 26,953 | – | (19,260) | 7,693 |
| 19th December 2003 | 19th December 2003 to 27th August 2012 | HK\$1.58 | – | 6,320 | – | 6,320 |
| | | | 26,953 | 6,320 | (19,260) | 14,013 |
| | | | 74,253 | 6,320 | (19,260) | 61,313 |

During the year ended 31st March 2004, certain employee share options were exercised to subscribed for 19,260,000 shares of HK\$0.1 each (2003: 60,200,000 shares of HK\$0.01 each) at an aggregated consideration of approximately HK\$16,563,000 (2003: HK\$6,562,000). The aggregated market value of the shares issued upon exercise of these share options amounted to approximately HK\$24,485,000 (2003: HK\$8,528,000).

Notes to the Accounts

28 RESERVES

Movements were:

Consolidated

| | Share premium <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|---|---|--|--------------------------|
| At 1st April 2002 | – | – | 127,527 | 360,322 | 487,849 |
| Exercise of employee share options (<i>Note 26</i>) | 5,960 | – | – | – | 5,960 |
| Repurchase of shares (<i>Note 26</i>) | (5,960) | 7,016 | (55,118) | – | (54,062) |
| Profit for the year | – | – | – | 83,500 | 83,500 |
| At 31st March 2003 | – | 7,016 | 72,409 | 443,822 | 523,247 |
| Issue of shares | | | | | |
| – placement (<i>Note 26</i>) | 87,689 | – | – | – | 87,689 |
| – exercise of employee share options (<i>Note 26</i>) | 14,637 | – | – | – | 14,637 |
| Share issue expenses | (2,958) | – | – | – | (2,958) |
| Profit for the year | – | – | – | 61,779 | 61,779 |
| 2003/2004 interim dividend | – | – | – | (11,216) | (11,216) |
| At 31st March 2004 | 99,368 | 7,016 | 72,409 | 494,385 | 673,178 |
| Representing – | | | | | |
| Proposed 2003/2004 final dividend | | | | 3,365 | |
| Others | | | | 491,020 | |
| Retained profits at 31st March 2004 | | | | 494,385 | |

Notes to the Accounts

28 RESERVES (continued)

Company

| | Share premium <i>HK\$'000</i> | Capital redemption reserve <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | (Accumulated losses)/ Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|---|---|--|--------------------------|
| At 1st April 2002 | – | – | 286,128 | (31,897) | 254,231 |
| Exercise of employee share options (<i>Note 26</i>) | 5,960 | – | – | – | 5,960 |
| Repurchase of shares (<i>Note 26</i>) | (5,960) | 7,016 | (55,118) | – | (54,062) |
| Profit for the year | – | – | – | 45,556 | 45,556 |
| At 31st March 2003 | – | 7,016 | 231,010 | 13,659 | 251,685 |
| Issue of shares | | | | | |
| – placement (<i>Note 26</i>) | 87,689 | – | – | – | 87,689 |
| – exercise of employee share options (<i>Note 26</i>) | 14,637 | – | – | – | 14,637 |
| Share issue expenses | (2,958) | – | – | – | (2,958) |
| Profit for the year | – | – | – | 6,075 | 6,075 |
| 2003/2004 interim dividend | – | – | – | (11,216) | (11,216) |
| At 31st March 2004 | 99,368 | 7,016 | 231,010 | 8,518 | 345,912 |
| Representing – | | | | | |
| Proposed 2003/2004 final dividend | | | | 3,365 | |
| Others | | | | 5,153 | |
| Retained profits at 31st March 2004 | | | | 8,518 | |

Under the Companies Act 1981 of Bermuda (as amended), contributed surplus is distributable to shareholders, subject to the condition that the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if (i) it is, or would after the payment be, unable to pay its liabilities as they become due, or (ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

Notes to the Accounts

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to net cash inflow generated from operations:

| | 2004 | 2003 |
|---|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Operating profit | 85,460 | 66,927 |
| Interest income | (1,062) | (3,583) |
| Depreciation of fixed assets | 109,096 | 106,940 |
| Net loss on disposal of fixed assets | 985 | 3,934 |
| (Surplus)/Deficit on revaluation of an investment property | (100) | 230 |
| Unrealised gain on unlisted investments | (194) | (429) |
| | 194,185 | 174,019 |
| Increase in inventories | (116,049) | (103,450) |
| Increase in accounts receivable | (82,197) | (41,835) |
| Increase in prepayments, deposits and other receivables | (17,671) | (7,071) |
| Increase in accounts payable | 43,249 | 17,096 |
| Increase in accruals and other payables | 6,425 | 3,156 |
| | 27,942 | 41,915 |
| Net cash inflow generated from operations | 27,942 | 41,915 |

Notes to the Accounts

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing:

| | Share capital and share premium <i>HK\$'000</i> | Short-term bank borrowings <i>HK\$'000</i> | Long-term bank loans <i>HK\$'000</i> | Finance lease obligations <i>HK\$'000</i> | Due to a director <i>HK\$'000</i> |
|---|---|--|--|---|---|
| As at 1st April 2002 | 53,320 | 379,504 | 38,775 | 33,440 | 6,088 |
| Issue of shares – exercise of employee share options | 6,562 | – | – | – | – |
| Repurchase of shares | (12,976) | – | – | – | – |
| New finance leases | – | – | – | 33,341 | – |
| Repayment of capital element of finance lease obligations | – | – | – | (27,197) | – |
| New bank borrowings | – | 1,095,891 | 135,494 | – | – |
| Repayment of bank borrowings | – | (1,067,810) | (5,827) | – | – |
| Advance from a director | – | – | – | – | 522 |
| Decrease in amount due to a director | – | – | – | – | (3,091) |
| As at 31st March 2003 | 46,906 | 407,585 | 168,442 | 39,584 | 3,519 |
| Issue of shares – placement | 94,936 | – | – | – | – |
| – exercise of employee share options | 16,563 | – | – | – | – |
| Share issue expenses | (2,958) | – | – | – | – |
| New finance leases | – | – | – | 181 | – |
| Repayment of capital element of finance lease obligations | – | – | – | (21,184) | – |
| New bank borrowings | – | 1,243,423 | 46,100 | – | – |
| Repayment of bank borrowings | – | (1,110,349) | (86,677) | – | – |
| Advance from a director | – | – | – | – | 15,590 |
| Repayment of amount due to a director | – | – | – | – | (11,373) |
| As at 31st March 2004 | 155,447 | 540,659 | 127,865 | 18,581 | 7,736 |

(c) Major non-cash transactions:

During the year ended 31st March 2004, the Group entered into finance lease arrangements in respect of fixed assets with a capital value at the inception of the leases of approximately HK\$181,000 (2003: HK\$33,341,000).

Notes to the Accounts

29 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(d) Analysis of cash and cash equivalents:

| | 2004 <i>HK\$'000</i> | 2003 <i>HK\$'000</i> |
|------------------------|--------------------------------|-------------------------|
| Cash and bank deposits | 41,131 | 13,760 |
| Bank overdrafts | (36) | (3,829) |
| | 41,095 | 9,931 |

30 SEGMENT INFORMATION

(a) Business segments

The Group is organised into two main business segments: (i) wholesale, trading and retail of gold products, other precious metal products and jewellery products ("Gold and jewellery operations"); and (ii) investment holding.

An analysis by business segment was as follows:

| | 2004 | | | 2003 | | |
|---|---|--|---------------------------------|--|--|--------------------------|
| | Gold and jewellery operations <i>HK\$'000</i> | Investment holding <i>HK\$'000</i> | Total <i>HK\$'000</i> | Gold and jewellery operations <i>HK\$'000</i> | Investment holding <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Turnover | | | | | | |
| Sales to external customers | 2,067,608 | 66 | 2,067,674 | 1,700,804 | 63 | 1,700,867 |
| Operating results | | | | | | |
| Segment results | 85,212 | 248 | 85,460 | 66,633 | 294 | 66,927 |
| Share of losses of associates, provision against advance to an associate and gain on disposal of an associate | - | - | - | - | 38,467 | 38,467 |
| Finance costs | | | (25,110) | | | (24,541) |
| Taxation | | | 1,429 | | | 2,647 |
| Profit attributable to shareholders | | | 61,779 | | | 83,500 |

Notes to the Accounts

30 SEGMENT INFORMATION (continued)**(a) Business segments** (continued)

| | 2004 | | | 2003 | | |
|---------------------------------|--|--|--------------------------|--|--|--------------------------|
| | Gold and jewellery operations <i>HK\$'000</i> | Investment holding <i>HK\$'000</i> | Total <i>HK\$'000</i> | Gold and jewellery operations <i>HK\$'000</i> | Investment holding <i>HK\$'000</i> | Total <i>HK\$'000</i> |
| Other information | | | | | | |
| Assets | | | | | | |
| Segment assets | 1,587,652 | 10,734 | 1,598,386 | 1,315,440 | 6,540 | 1,321,980 |
| Unallocated assets | | | 1,448 | | | 432 |
| | | | 1,599,834 | | | 1,322,412 |
| Liabilities | | | | | | |
| Segment liabilities | 831,995 | – | 831,995 | 710,403 | – | 710,403 |
| Unallocated liabilities | | | 38,582 | | | 41,856 |
| | | | 870,577 | | | 752,259 |
| Capital expenditure | 143,571 | – | 143,571 | 145,139 | – | 145,139 |
| Depreciation of fixed assets | 109,096 | – | 109,096 | 106,940 | – | 106,940 |

There are no sales or other transactions between the business segments.

Notes to the Accounts

30 SEGMENT INFORMATION (continued)

(b) Geographical segments

An analysis by geographical segment was as follows:

| | 2004 | 2003 |
|--------------------------------|------------------|-----------|
| | HK\$'000 | HK\$'000 |
| Turnover (i) | | |
| – Hong Kong/Mainland China | 1,770,310 | 1,454,623 |
| – South-East Asia | 165,049 | 146,913 |
| – The United States of America | 119,311 | 86,460 |
| – Europe | 10,255 | 10,032 |
| – Others | 2,749 | 2,839 |
| | 2,067,674 | 1,700,867 |
| Segment results | | |
| – Hong Kong/Mainland China | 59,153 | 36,703 |
| – South-East Asia | 7,542 | 10,342 |
| – The United States of America | 16,314 | 17,327 |
| – Europe | 2,345 | 2,412 |
| – Others | 106 | 143 |
| | 85,460 | 66,927 |

Note:

- (i) Turnover by geographical location is determined on the basis of the location of deliveries or the destination of shipments of goods.

No segment information by location is presented as all of the Group's assets are located in Hong Kong/Mainland China.

Notes to the Accounts

31 OPERATING LEASE COMMITMENTS

The Group has operating lease commitments in respect of rented premises under various non-cancellable operating lease agreements extending to January 2010. The total commitments were analysed as follows:

| | Consolidated | | Company | |
|-------------------------------|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Amounts payable | | | | |
| – within one year | 21,582 | 7,749 | – | – |
| – in the second to fifth year | 50,967 | 8,629 | – | – |
| – after the fifth year | 4,918 | – | – | – |
| | 77,467 | 16,378 | – | – |

32 CONTINGENT LIABILITIES

| | Group | | Company | |
|---|------------------|------------------|------------------|------------------|
| | 2004 HK\$'000 | 2003 HK\$'000 | 2004 HK\$'000 | 2003 HK\$'000 |
| Guarantees for banking facilities of the Company's subsidiaries | – | – | 714,349 | 555,974 |

The Company's directors and the Group's management anticipate that no material liabilities will arise from the above guarantees which arose in the ordinary course of business.

33 PENSION SCHEMES

The Group has arranged for its Hong Kong employees to join the Mandatory Provident Fund Scheme ("the MPF Scheme"), a defined contribution scheme managed by an independent trustee. Under the MPF Scheme, each of the Group and its employees make monthly contributions to the scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund legislation. Both the employer's and the employees' contributions are subject to a cap of HK\$1,000 per month and thereafter contributions are voluntary.

As stipulated by rules and regulations in Mainland China, the Group contributes to a state-sponsored retirement plan for its employees in Mainland China. The Group's employees make monthly contributions to the plan at approximately 5% of relevant income (comprising salaries, allowances and bonus), while the Group contributed approximately 8% of such income, and has no further obligations for the actual payment of pensions beyond the contributions. The state-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees.

For the year ended 31st March 2004, the amount of the Group's employer contributions to the pension schemes were approximately HK\$3,547,000 (2003: HK\$2,428,000).

Notes to the Accounts

34 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st March 2004, the Group had aggregate banking facilities of approximately HK\$829,169,000 (2003: HK\$610,345,000) from several banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately HK\$154,210,000 (2003: HK\$26,632,000). These facilities were secured by:

- (i) mortgages/pledges of the Group's land and buildings and furniture with an aggregate net book value of approximately HK\$86,292,000 (2003: HK\$43,044,000) (see Note 12);
- (ii) pledge of the Group's investment property of approximately HK\$1,320,000 (2003: Nil) (see Note 13);
- (iii) pledges of the Group's investments of approximately HK\$9,251,000 (2003: HK\$5,166,000) (see Note 18);
- (iv) pledges of the Group's bank deposits of approximately HK\$100,624,000 (2003: HK\$105,190,000) (see Note 19);
- (v) the Group's inventories held under trust receipts bank loan arrangements (see Note 16);
- (vi) mortgages over certain properties owned by Dr. Lam Sai Wing, a director of the Company (see Note 2);
- (vii) assignment of the benefits in respect of a keyman insurance of Dr. Lam Sai Wing amounting to HK\$20,000,000 (2003: HK\$20,000,000) (see Note 2); and
- (viii) guarantees provided by the Company (see Note 32).

In addition, the Group has agreed with certain banks to comply with certain restrictive financial covenants.

35 SIGNIFICANT SUBSEQUENT EVENT

In June 2004, Hang Fung Jewellery Company Limited, a wholly owned subsidiary, obtained a three-year syndicated bank loan facility of HK\$300,000,000, of which approximately HK\$190,000,000 has to be utilised to repay the Group's then existing bank borrowings. The loan bears interest at HIBOR (Hong Kong Dollar Interbank Offered Rates) plus 1.5% per annum and is secured by a corporate guarantee provided by the Company.

36 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 22nd July 2004.