



HANG FUNG GOLD TECHNOLOGY LIMITED

(恒豐金業科技有限公司)

Incorporated in Bermuda with limited liability



Interim Report 2004-2005

The Directors of Hang Fung Gold Technology Limited (“the Company”) is pleased to present the interim report together with the unaudited accounts of the Company and its subsidiaries (together “the Group”) for the six months ended 30th September 2004 together with comparative figures for the corresponding period in 2003 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		(Unaudited)	
		Six months ended	
		30th September	
	<i>Note</i>	2004	2003
		HK\$'000	<i>HK\$'000</i>
Turnover	2	1,151,695	913,876
Cost of sales		(759,579)	(746,012)
Gross profit		392,116	167,864
Other revenue/income		44	696
Selling and marketing expenses		(245,116)	(68,998)
General and administrative expenses		(94,503)	(50,458)
Operating profit	3	52,541	49,104
Finance costs		(10,511)	(13,239)
Profit before taxation		42,030	35,865
Taxation	4	(510)	(3,150)
Profit attributable to shareholders		41,520	32,715
Dividends	5	–	11,216
Earnings per share	6		
– Basic		HK7.40 cents	HK6.81 cents
– Diluted		HK7.30 cents	HK6.77 cents

CONSOLIDATED BALANCE SHEET

		(Unaudited) 30th September 2004 HK\$'000	(Audited) 31st March 2004 HK\$'000
	<i>Note</i>		
NON-CURRENT ASSETS			
Fixed assets		438,095	417,640
Investment property		1,320	1,320
Total non-current assets		439,415	418,960
CURRENT ASSETS			
Inventories		673,800	601,358
Accounts receivable	7	449,474	393,786
Prepayments, deposits and other receivables		22,514	34,561
Investments		9,414	9,414
Pledged bank deposits		35,652	100,624
Cash and bank deposits		16,922	41,131
Total current assets		1,207,776	1,180,874
CURRENT LIABILITIES			
Short-term bank borrowings		(378,983)	(540,695)
Long-term bank loans, current portion		(48,433)	(66,290)
Finance lease obligations, current portion		(13,846)	(12,874)
Accounts payable	8	(88,123)	(115,328)
Accruals and other payables		(12,709)	(21,790)
Due to a director		-	(7,736)
Dividend payable		(3,513)	-
Taxation payable		(10,530)	(12,477)
Total current liabilities		(556,137)	(777,190)
Net current assets		651,639	403,684
Total assets less current liabilities		1,091,054	822,644
NON-CURRENT LIABILITIES			
Long-term bank loans		(288,780)	(61,575)
Finance lease obligations		(8,757)	(5,707)
Deferred taxation		(26,105)	(26,105)
Total non-current liabilities		(323,642)	(93,387)
Net assets		767,412	729,257
Representing:			
SHARE CAPITAL	9	56,079	56,079
RESERVES	11	711,333	673,178
Shareholders' equity		767,412	729,257

CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
OPERATING ACTIVITIES		
Net cash (outflow) inflow generated		
from operations	(42,016)	10,973
Interest received	44	696
Interest paid	(10,511)	(13,239)
Hong Kong profits tax paid	(993)	(1,277)
	(53,476)	(2,847)
INVESTING ACTIVITIES		
Additions of fixed assets	(64,547)	(36,189)
Decrease in pledged bank deposits	64,972	3,410
Increase in amount due from intermediate holding companies	-	(1,341)
	425	(34,120)
Net cash inflow (outflow) from investing activities	425	(34,120)
Net cash outflow before financing activities	(53,051)	(36,967)
FINANCING ACTIVITIES		
Issue of shares		
– placement	-	94,936
– exercise of share options	-	16,564
Share issue expenses	-	(2,959)
New long-term bank loans	265,000	30,000
Repayment of long-term bank loans	(55,652)	(60,484)
New short-term bank borrowings	550,327	598,272
Repayment of short-term bank borrowings	(712,003)	(580,754)
Repayment of capital element of finance lease obligations	(11,058)	(11,980)
(Decrease) increase in amount due to a director	(7,736)	3,459
	28,878	87,054
Net cash inflow from financing activities	28,878	87,054
(Decrease) increase in cash and cash equivalents	(24,173)	50,087
CASH AND CASH EQUIVALENTS		
Beginning of period	41,095	9,931
End of period	16,922	60,018

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	(Unaudited)	
	Six months ended	
	30th September	
	2004	2003
	HK\$'000	HK\$'000
Balance as at beginning of period	729,257	570,153
Profit for the period	41,520	32,715
Issue of shares		
– placement	–	94,936
– exercise of share options	–	16,564
Share issue expenses	–	(2,959)
Dividend paid	(3,365)	–
Balance as at end of period	767,412	711,409

Notes:

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These unaudited condensed consolidated interim accounts are prepared in accordance with the Statement of Standard Accounting Practice No. 25 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and Appendix 16 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). These interim accounts should be read in conjunction with the annual accounts for the year ended 31st March 2004.

These interim accounts have been prepared on a basis consistent with the principal accounting policies adopted in the annual accounts for the year ended 31st March 2004.

2. 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 ("Jewellery operations"); and (ii) investment holding.

An analysis by business segment was as follows:

	Six months ended 30th September 2004		
	Jewellery operations	Investment holding	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
Turnover			
Sales to external customers	1,151,659	36	1,151,695
Operating results			
Segment results	52,511	30	52,541
Finance costs			(10,511)
Taxation			(510)
Profit attributable to shareholders			41,520

Six months ended 30th September 2003

Jewellery operations	Investment holding	Total
HK\$'000	HK\$'000	HK\$'000

Turnover

Sales to external customers	913,846	30	913,876
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Operating results

Segment results	49,079	25	49,104
Finance costs			(13,239)
Taxation			(3,150)
Profit attributable to shareholders			32,715

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

(b) Geographical segments

An analysis by geographical segment was as follows:

	Turnover**		Segment results	
	Six months ended 30th September 2004	2003	Six months ended 30th September 2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong/Mainland China	1,001,982	782,677	38,955	31,478
South-East Asia	79,035	71,622	3,607	5,475
The United States of America	59,420	52,449	8,122	10,827
Europe	7,484	4,852	1,711	1,196
Others	3,774	2,276	146	128
	1,151,695	913,876	52,541	49,104

** Turnover by geographical location is determined on the basis of the location of deliveries or the destination of shipments of goods.

3. OPERATING PROFIT

Operating profit was determined after charging:

	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Depreciation of fixed assets	59,172	53,158

4. TAXATION

Taxation consisted of:

	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Current taxation		
– Hong Kong profits tax	(3,749)	(3,150)
– Write-back of over-provision of Mainland China taxes in prior years	3,239	–
	(510)	(3,150)

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) 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 period.

5. DIVIDENDS

	Six months ended 30th September	
	2004	2003
	HK\$'000	HK\$'000
Interim dividend of nil (2003: HK 1.2 cents) per share	–	6,730
Special dividend of nil (2003: HK 0.8 cent) per share	–	4,486
	–	11,216

6. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30th September 2004 is based on the profit attributable to shareholders of approximately HK\$41,520,000 (2003: HK\$32,715,000) and on the number of 560,794,000 shares (2003: weighted average number of approximately 480,089,137 shares after taking into consideration of the ten-to-one consolidation of shares on 30th April 2003) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30th September 2004 is based on the profit attributable to shareholders of approximately HK\$41,520,000 (2003: HK\$32,715,000) and on the number of 569,144,570 shares (2003: weighted average number of approximately 483,073,484 shares after taking into consideration of the ten-to-one consolidation of shares on 30th April 2003) in issue during the period, after adjusting for the potential dilutive effect of outstanding share options.

7. 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:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
0 to 90 days	330,270	331,474
91 to 180 days	126,762	67,883
181 to 270 days	2,442	4,429
	459,474	403,786
Less: Provision for bad and doubtful debts	(10,000)	(10,000)
	449,474	393,786

8. ACCOUNTS PAYABLE

The ageing analysis of accounts payable was as follows:

	30th September 2004 HK\$'000	31st March 2004 HK\$'000
0 to 90 days	79,955	103,023
91 to 180 days	7,666	10,975
181 to 270 days	502	1,330
	88,123	115,328

9. SHARE CAPITAL

	Number of shares '000	Nominal value HK\$'000
Ordinary shares of HK\$0.10 each		
Authorized		
At 1st April 2004 and at 30th September 2004	2,000,000	200,000
Issued and fully paid		
At 1st April 2004 and at 30th September 2004	560,794	56,079

10. SHARE OPTIONS

Effect from 28th August 2002, the Company has adopted a new share option scheme (the "New Scheme") and terminated the old share option scheme adopted on 27th February 1999 (the "Old Scheme").

Movements of share options during the six months ended 30th September 2004 were:

Participant	Date of grant	Exercise period	Exercise price	Number of share options			End of period
				Beginning of period	Granted during the period	Exercised during the period	
				'000	'000	'000	'000
<i>Old Scheme</i>							
Employees	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
<i>New Scheme</i>							
Directors							
Mr. Lam Sai Wing	19th December 2003	19th December 2003 to 27th August 2012	HK\$1.58	3,160	-	-	3,160
Ms. Chan Yam Fai, Jane	19th December 2003	19th December 2003 to 27th August 2012	HK\$1.58	3,160	-	-	3,160
Employees	19th February 2003	31st July 2003 to 27th August 2012	HK\$0.86	7,693	-	-	7,693
				61,313	-	-	61,313

The number of shares for subscription and exercise prices of the share options presented above have been adjusted for the effect of the ten-to-one consolidation of shares on 30th April 2003.

No options were cancelled or lapsed during the six months ended 30th September 2004.

11. RESERVES

Movements of reserves during the six months ended 30th September 2004 were:

	Capital				
	Share premium	redemption reserve	Contributed surplus	Retained profits	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1st April 2004	99,368	7,016	72,409	494,385	673,178
Profit for the period	–	–	–	41,520	41,520
2003/2004 final dividend	–	–	–	(3,365)	(3,365)
	<hr/>				
At 30th September 2004	99,368	7,016	72,409	532,540	711,333

12. CONTINGENT LIABILITIES

The Group did not had any significant contingent liabilities as at 30th September 2004 (31st March 2004: nil).

13. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform with the current period's presentation.

INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Directors do not recommend the payment of an interim dividend (2003: HK 1.2 cents per share) and a special dividend (2003: HK 0.8 cent per share) in respect of the six months ended 30th September 2004.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30th September 2004, the Group reported a turnover of HK\$1,151,695,000, representing a 26.0% growth compared with HK\$913,876,000 recorded in the corresponding period last year. Profit attributable to shareholders increased by 26.9% to HK\$41,520,000 (2003: HK\$32,715,000).

Business Review

The Mainland government further relaxed its Individual Travelers Scheme starting from 1st July 2004. Individual residents of nine more cities in Zhejiang, Jiangsu and Fujian provinces with strong purchasing power are allowed to visit Hong Kong. To fully seize the opportunities arising from the relaxed Scheme, the Group pursued the expansion of Phases V and VI of its "3D-GOLD" Tourism Exhibition Hall in April 2004. Such expansion has doubled the then existing retail space of the Tourism Exhibition Hall to the current total floor area of over 100,000 square feet. Prompted by the rebounding local retail market and growing average spending of consumers, the Group opened its second "3D-GOLD" jewellery shop in Causeway Bay in April 2004, following the opening of its first Hong Kong retail shop in Sino Centre, Mongkok at the end of last year. The Group expects that the prime locations of these retail shops will help capture more business of tourists and local customers.

All these newly opened retail outlets together with the growth in tourism and local retail market bring in a substantial growth of the Group's revenue in the Hong Kong brand retailing business, which in turn accounted for the principal increase of the Group's turnover in the reporting period. As the brand retailing business enjoys a higher gross profit margin, sales increases from this segment boosted the Group's overall gross profit margin from 18.4% in 2003 to 34.0% in this period.

Coupled with the expansion of retail business, the Group continued to increase its marketing and promotion costs for the "3D-GOLD" brand and products in the period under review. As a result, the selling and marketing expenses now accounted for 21.3% of total turnover, as compared with 7.6% in 2003 (an exceptional low percentage due to the outbreak of SARS in last period). Management believes that such an investment will enhance the Group's brand value to sustain overall profitability in the long term. General and administrative expenses also showed an increase from 5.5% of total turnover in 2003 to 8.2% in the period, along with the general expansion in business volume of the Group.

Geographically, Mainland China and Hong Kong remained as our largest markets accounting for 87.0% (2003: 85.6%) of the Group's turnover. The total sales from this region reached HK\$1,001,982,000, an increase of HK\$219,305,000 over last period's figure. Overseas sales amounted to HK\$149,713,000 (2003: HK\$131,199,000), achieving a growth of 14.1%.

Prospects

Looking ahead, the Group will continue to strengthen its brand retailing business to benefit from the enormous opportunities arising from Individual Traveler Scheme and the improving economy. Adhering to this strategy, the Group opened the third "3D-GOLD" jewellery shop on King's Road, North Point in October 2004. For the PRC market, the Group is following to increase the number of retail outlets through franchising and cooperative arrangement, with the longer-term goal of achieving 300 retail outlets by the year 2006. Management is confident that its brand retailing business will continue to generate fruitful returns for the Group.

Liquidity and Financial Resources

As of the 30th September 2004, the Group maintained aggregate banking facilities of HK\$956,931,000 (31st March 2004: HK\$829,169,000), of which HK\$229,829,000 (31st March 2004: HK\$154,210,000) had not been utilised. Interest on bank borrowings is charged at commercial lending rates to the Group. Certain assets of the Group have been pledged to banks for these facilities. Cash and bank deposits as of the 30th September 2004 amounted to HK\$52,574,000 (31st March 2004: HK\$141,755,000). The Group primarily uses internally-generated cash flow and banking facilities to finance operations and its capital expenditure. Management considers that the Group has sufficient funding for these purposes.

The Group successfully obtained a 3-year syndicated loan facility on 30th June 2004, and signed an agreement with a group of 10 international and local banks in connection with the HK\$300 million term loan facility, with an interest margin of HIBOR + 1.50% per annum. The proceeds of the facility were used for refinancing a portion of the Group's existing debts and for expanding its retail network and manufacturing capacity in China.

The Group's gearing ratio (ratio of aggregate bank borrowings less cash and bank deposits to equity) as of the 30th September 2004 was 0.86 (31st March 2004: 0.72).

DIRECTORS' INTERESTS

As at 30th September 2004, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 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 Issuers were as follows:

(a) Long positions in the Company

	Number of shares				Percentage holding of total interest	Number of share options
	Personal Interest	Family Interest	Corporate Interest	Total Interest		
Mr. Lam Sai Wing	2,032,000	-	167,406,750 <i>(Note 1)</i>	169,438,750	30.21%	3,160,000 <i>(Note 2)</i>
Ms. Chan Yam Fai, Jane	-	-	-	-	-	3,160,000 <i>(Note 2)</i>

(b) Long positions in associated corporations

	Name of corporation	Number of shares	
		Personal Interest	Total
Mr. Lam Sai Wing	Hang Fung Jewellery Company Limited	1 Class A (non-voting) ordinary (Note 3)	1
	Kai Hang Jewellery Company Limited	8,000 Class A (non-voting) ordinary (Note 3)	8,000
Ms. Chan Yam Fai, Jane	Hang Fung Jewellery Company Limited	1 Class A (non-voting) ordinary (Note 3)	1
	Kai Hang Jewellery Company Limited	2,000 Class A (non-voting) ordinary (Note 3)	2,000

Notes:

1. Quality Prince Limited is a company wholly owned by S.W. Lam, Inc. Mr. Lam Sai Wing, the chairman of the Company, beneficially owns approximately 82% of the shares of S.W. Lam, Inc. Mr. Lam Sai Wing through Good Day Holdings Limited and a nominee is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of S.W. Lam, Inc. S.W. Lam, Inc. is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Quality Prince Limited. Accordingly, Mr. Lam Sai Wing is deemed to be interested in all shares in the Company held by Quality Prince Limited.
2. The interests of the directors in the share options of the Company are separately disclosed in Note 10 to the accounts.
3. 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 each financial year, and are not entitled to distribution of the company's 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. The Class B (voting) ordinary shares have voting rights and are entitled to dividends and distribution of the company's assets.

Save as disclosed above, as at 30th September 2004, the register maintained by the Company pursuant to section 352 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 Issuers recorded no other interests or short positions of the directors and chief executives of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 30th September 2004, the interests and short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

Name	Long positions	
	Number of shares	Percentage holding
Good Day Holdings Limited (<i>Note</i>)	167,406,750	29.85%
S.W. Lam, Inc. (<i>Note</i>)	167,406,750	29.85%
Quality Prince Limited (<i>Note</i>)	167,406,750	29.85%
Phenomenal Limited	68,843,250	12.28%

Note: Quality Prince Limited is a company wholly owned by S.W. Lam, Inc. Good Day Holdings Limited is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of S.W. Lam, Inc.

Save as disclosed above, as at 30th September 2004, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the six months ended 30th September 2004.

DISCLOSURE PURSUANT TO RULES 13.18 & 13.21 OF THE LISTING RULES

Hang Fung Jewellery Company Limited, a wholly-owned subsidiary of the Company, entered into a facility agreement (the "Facility Agreement") dated 30th June 2004 with financial institutions not connected with the directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, in respect of a loan facility of up to a principal amount of HK\$300,000,000 for a term of three years. Its obligations under the Facility Agreement are guaranteed by the Company.

Amongst other things, there will be an event of default under the Facility Agreement if Mr. Lam Sai Wing, the controlling shareholder of the Company, fails to maintain a direct or indirect holding of at least 20% of the issued voting share capital of the Company or ceases to be the chairman of the board of Directors of the Company, so that on such a default, the entire facility may be terminated.

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim report for the six months ended 30th September 2004.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30th September 2004 in compliance with the Code of Best Practice as set out in Appendix 14 to the Listing Rules, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-Laws.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors’ securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period covered by the interim report.

BOARD OF DIRECTORS

As at the date of this report, the executive Directors are Mr. Lam Sai Wing and Ms. Chan Yam Fai, Jane, the non-executive Director is Mr. Wong Kwong Chi and the independent non-executive Directors are Mr. Liu Ngai Wing, Mr. Lee Kok Keung and Mr. Lou Ping Ho.

By Order of the Board

Lam Sai Wing

Chairman

Hong Kong, 15th December 2004