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 Institute of Certified Public Accountants ("HKICPA"). They have been prepared under the historical cost convention except that, as disclosed in the accounting policies below, investment properties (see Note 1(f)) and investments (see Note 1(j)) are stated at fair value.

(b) Recently issued accounting standards

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1st January 2005. Hang Fung Gold Technology Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") have not early adopted these new HKFRSs in the accounts for the year ended 31st March 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have significant impact on its results of operations and financial positions.

(c) Basis of 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.

(d) 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, investments in subsidiaries are 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.

Notes to the Accounts

1 **PRINCIPAL ACCOUNTING POLICIES** (continued)

(e) **Fixed assets**

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	2% to 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.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

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.

(f) **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.

Notes to the Accounts

1 **PRINCIPAL ACCOUNTING POLICIES** (continued)

(f) **Investment properties** (continued)

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.

(g) **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 lease 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.

(h) **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.

(i) **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)

(j) **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. Gains 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.

(k) **Gold loans**

Gold loans are stated at the gold price prevailing at the balance sheet date. Differences arising from changes in gold prices are dealt with in the profit and loss account.

(l) **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.

(m) **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.

(n) **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 the 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 to customers and title has passed.

Notes to the Accounts

1 **PRINCIPAL ACCOUNTING POLICIES** (continued)

(n) **Revenue recognition** (continued)

(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 at the interest rates applicable.

(o) **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.

(ii) Pension obligations

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

(iii) Equity compensation benefits

Share options are granted to eligible participants, with exercise price at or above the market price of the shares on the date of the grant. No compensation cost is recognised. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium.

(p) **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.

(q) **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.

Notes to the Accounts

1 **PRINCIPAL ACCOUNTING POLICIES** (continued)

(r) **Translation of foreign currencies**

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.

(s) **Cash and cash equivalents**

Cash and cash equivalents are carried in the balance sheet at cost. For the purpose 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.

(t) **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 segment as the secondary reporting format.

Segment assets consist primarily of fixed assets, investment properties, inventories, receivables and other operating assets. 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 **TURNOVER, REVENUE AND SEGMENT INFORMATION**

(a) Turnover and revenue consisted of:

	2005 HK$'000	2004 HK$'000
Sales of goods	2,566,742	2,067,608
Rental income	72	66
Turnover	2,566,814	2,067,674
Interest income	150	1,062
Gain on disposals of land and buildings	3,780	–
Other income	3,930	1,062
Total revenue	2,570,744	2,068,736

(b) **Business segments**

No segment analysis by business segment is presented as the Group principally operates in one business segment, which is the wholesale, trading and retail of gold products, other precious metal products and jewellery products.

Notes to the Accounts

2 **TURNOVER, REVENUE AND SEGMENT INFORMATION** (continued)

(c) **Geographical segments**

An analysis by geographical segment was as follows:

	2005 HK$'000	2004 HK$'000
Turnover (i)		
– Hong Kong/Mainland China	2,293,038	1,770,310
– South-East Asia	156,358	165,049
– The United States of America	103,961	119,311
– Europe	13,192	10,255
– Others	265	2,749
	2,566,814	2,067,674
Segment results		
– Hong Kong/Mainland China	112,469	59,153
– South-East Asia	8,522	7,542
– The United States of America	15,130	16,314
– Europe	3,133	2,345
– Others	13	106
	139,267	85,460

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 of total assets and capital expenditure by location is presented as all of the Group's assets are located in Hong Kong/Mainland China.

Notes to the Accounts

3 OPERATING PROFIT

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

	2005 HK$'000	2004 HK$'000
After charging –		
Employment costs (including directors' emoluments) (Note 5)	118,962	74,971
Advertising and promotion costs	45,789	24,954
Operating lease rentals in respect of office, shop and factory premises	31,250	13,445
Depreciation of fixed assets		
– owned assets	113,336	96,699
– assets held under finance leases	8,114	12,397
Net loss on disposals of fixed assets (excluding land and buildings)	641	985
Provision for slow-moving and obsolete inventories	–	1,324
Provision for bad and doubtful debts	77	–
Unrealised loss on revaluation of gold loans	1,130	22,879
Unrealised loss on unlisted investments	156	–
Auditors' remuneration	1,680	988
After crediting –		
Interest income from bank deposits	150	1,062
Gain on disposals of land and buildings	3,780	–
Surplus on revaluation of an investment property	360	100
Unrealised gain on unlisted investments	–	194
Write-back of provision for slow-moving and obsolete inventories	624	–
Net exchange gains	7,121	3,806
Rental income, less outgoings	61	54

Notes to the Accounts

4 FINANCE COSTS

	2005 HK$'000	2004 HK$'000
Interest on		
– bank overdrafts and borrowings wholly repayable within five years	20,403	21,705
– gold loans wholly repayable within five years	2,072	868
– bank borrowings wholly repayable after five years	104	404
– accounts payable to suppliers	1,912	892
– finance leases	939	1,241
	25,430	25,110
Amortisation of deferred borrowing costs	1,035	–
	26,465	25,110

5 EMPLOYMENT COSTS

Employment costs, including directors' emoluments, consisted of:

	2005 HK$'000	2004 HK$'000
Salaries, wages, commission and allowances	114,582	70,465
Pension costs – contributions to defined contribution plans and provision for long-service payments	4,380	4,506
	118,962	74,971

Notes to the Accounts

6 DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS

(a) Details of directors' emoluments were:

	2005 HK$'000	2004 HK$'000
Fees for executive directors	–	–
Fees for non-executive director	–	–
Fee for independent non-executive directors	251	120
Other emoluments for executive directors		
– basic salaries and allowances	6,022	2,679
– contributions to pension scheme	24	24
	6,297	2,823

During the year, the two executive directors waived emoluments totalling of approximately HK$1,960,000 (2004: HK$5,094,000) 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 (2004: Nil).

During the year ended 31st March 2005, no options were granted to directors. During the year ended 31st March 2004, 6,320,000 options were granted to the executive directors under the Company's employee share options scheme (see Note 25) 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 (2004: Nil). The directors' emoluments reflected in the accounts have not included the benefits derived or to be derived from the share options.

The emoluments of directors fell within the following bands:

	Number of directors	
	2005	2004
Executive directors		
– Nil to HK$1,000,000	1	1
– HK$2,000,001 to HK$2,500,000	–	1
– HK$5,500,001 to HK$6,000,000	1	–
Non-executive director		
– Nil to HK$1,000,000	1	1
Independent non-executive directors		
– Nil to HK$1,000,000	3	2
	6	5

Notes to the Accounts

6 **DIRECTORS' AND SENIOR EXECUTIVES' EMOLUMENTS** (continued)

(b) The five individuals whose emoluments were the highest in the Group for the year included one (2004: one) director, whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining four (2004: four) individuals were as follows:

	2005 HK$'000	2004 HK$'000
Basic salaries and allowances	2,516	2,531
Bonus	210	–
Contributions to pension scheme	48	48
	2,774	2,579

The emoluments fell within the following bands:

	Number of individuals 2005	2004
– Nil to HK$500,000	–	2
– HK$500,001 to HK$1,000,000	3	1
– HK$1,000,001 to HK$1,500,000	1	1

(c) 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 (2004: Nil).

Notes to the Accounts

7 TAXATION (CHARGE)/CREDIT

	2005 HK$'000	2004 HK$'000
Current taxation		
– Hong Kong profits tax	(8,810)	(1,845)
– Under-provision in prior years	(572)	–
– Write-back of over-provision of Mainland China taxes in prior years (Note 22)	6,477	8,893
	(2,905)	7,048
Deferred taxation relating to the origination and reversal of temporary differences	(3,261)	(5,619)
	(6,166)	1,429

Notes:

(i) **Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong. .

(ii) **Mainland China enterprise income tax**

The subsidiaries established in Shenzhen, Mainland China are subject to Mainland China enterprise income tax at a rate of 15% for the year ended 31st March 2005 (2004: 15%). Hang Fung Jewellery (Shenzhen) Co., Ltd. is a wholly foreign owned enterprise with operating period of more than ten years and, in accordance with the relevant income tax regulations of Mainland China, is fully exempted from enterprise income tax for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction in enterprise income tax for the next three years. Hang Fung Jewellery (Shenzhen) Co., Ltd. was still at an accumulated loss position after offsetting prior years' tax losses as at 31st March 2005. As such, the first profitable year had not commenced as at 31st March 2005. Shenzhen Kai Hang Jewellery Co., Ltd. was established in September 2004 and had no profit subject to such tax during the year.

(iii) **Overseas income taxes**

The Company was incorporated in Bermuda and is exempted from taxation in Bermuda until 2016.

Notes to the Accounts

7 **TAXATION (CHARGE)/CREDIT** (continued)

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

	2005 HK$'000	2004 HK$'000
Profit before taxation	112,802	60,350
Calculated at a taxation rate of 17.5% (2004: 17.5%)	(19,740)	(10,561)
Tax effect of income not subject to taxation	10,977	3,323
Tax effect of expenses not deductible for taxation purposes	(388)	(119)
Unrecognised tax losses	(2,952)	(1,090)
Utilisation of previously unrecognised tax losses	32	983
Under-provision in prior years	(572)	–
Write-back of over-provision of Mainland China taxes in prior years	6,477	8,893
Taxation (charge)/credit	(6,166)	1,429

8 **PROFIT ATTRIBUTABLE TO SHAREHOLDERS**

The consolidated profit attributable to shareholders included a profit of approximately HK$28,438,000 (2004: a profit of approximately HK$6,075,000) dealt with in the accounts of the Company.

9 **DIVIDENDS**

	2005 HK$'000	2004 HK$'000
Interim dividend of nil (2004: HK1.2 cents) per share	–	6,730
Special dividend of nil (2004: HK0.8 cent) per share	–	4,486
Proposed final dividend of HK2.8 cents (2004: HK0.6 cent) per share	21,043	3,365
Proposed special dividend of HK1.0 cent (2004: nil) per share	7,515	–
	28,558	14,581

At a meeting held on 21st July 2005, the Directors declared a final dividend of HK2.8 cents per share and a special dividend of HK1.0 cent per share, totalling HK3.8 cents per share, which will be satisfied by allotment of new shares of the Company, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend and special dividend (or part thereof) in cash in lieu of such allotment. These proposed dividends are 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 2006. Such dividends represented an aggregate amount of approximately HK$21,310,000 for the 560,794,000 shares issued and outstanding as at 31st March 2005 and an additional amount of approximately HK$7,248,000 for the 190,731,333 shares issued from 1st April 2005 to 21st July 2005, the date of approval of these accounts.

Notes to the Accounts

10 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately HK$106,636,000 (2004: HK$61,779,000).

The basic earnings per share is based on the weighted average number of approximately 560,794,000 (2004: 522,818,000) ordinary shares in issue during the year. The diluted earnings per share is based on approximately 566,151,000 (2004: 530,490,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of approximately 5,357,000 (2004: 7,672,000) ordinary shares deemed to be issued at no consideration if all outstanding options had been exercised.

11 FIXED ASSETS

(a) Movements

	2005					2004
	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	290,672	540,134	3,644	856,450	732,404
Additions	–	189,176	44,374	712	234,262	143,571
Disposals	(13,600)	(1,552)	–	(361)	(15,513)	(19,525)
End of year	8,400	478,296	584,508	3,995	1,075,199	856,450
Accumulated depreciation						
Beginning of year	3,405	79,447	354,328	1,630	438,810	348,254
Charge for the year	760	37,274	82,869	547	121,450	109,096
Disposals	(2,380)	(732)	–	(112)	(3,224)	(18,540)
End of year	1,785	115,989	437,197	2,065	557,036	438,810
Net book value						
End of year	6,615	362,307	147,311	1,930	518,163	417,640
Beginning of year	18,595	211,225	185,806	2,014	417,640	384,150

(b) Land and buildings

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

Notes to the Accounts

11 **FIXED ASSETS** (continued)

(c) **Pledge of assets**

Land and buildings and furniture with an aggregate net book value of approximately HK$84,001,000 (2004: HK$86,292,000) are mortgaged/pledged as collateral for the Group's banking facilities (see Note 31).

(d) **Finance leases**

Certain machinery, equipment and tools and motor vehicles were purchased under finance leases (see Note 20). Details of these assets were as follows:

	2005 HK$'000	2004 HK$'000
Cost	41,163	61,987
Less: Accumulated depreciation	(17,372)	(32,521)
Net book value	23,791	29,466
Depreciation for the year	8,114	12,397

12 **INVESTMENT PROPERTY**

Movements were:

	2005 HK$'000	2004 HK$'000
Beginning of year	1,320	1,220
Surplus on revaluation	360	100
End of year	1,680	1,320

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 2005 as determined by DTZ Debenham Tie Leung Limited, an independent firm of qualified valuers. The investment property of approximately HK$1,680,000 (2004: HK$1,320,000) is pledged as collateral for the Group's banking facilities (see Note 31).

Details of the investment property as at 31st March 2005 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

Notes to the Accounts

13 INVESTMENTS IN SUBSIDIARIES

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

	2005 HK$'000	2004 HK$'000
Unlisted shares, at cost	158,743	158,743
Due from subsidiaries	267,923	418,396
	426,666	577,139
Less: Accumulated impairment losses and provision against amounts due from subsidiaries	–	(175,148)
	426,666	401,991

The amounts due from subsidiaries are unsecured, non-interest bearing and not repayable within one year.

Details of the principal subsidiaries as at 31st March 2005 were as follows:

Name	Place of incorporation/ operations	Issued and fully paid capital	Percentage of equity interest held (i)	Principal activities
Forever Rich Media Limited	Hong Kong	HK$2	100%	Advertising and promotion agent of the Group
Geneva International Jewellery & Watch Limited	Hong Kong	HK$100	100%	Retailing of watches
Hang Fung Development International Company Limited	Hong Kong	HK$2	100%	Retailing of gold products, other precious metal products and jewellery products
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 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

Notes to the Accounts

13 INVESTMENTS IN SUBSIDIARIES (continued)

Name	Place of incorporation/ operations	Issued and fully paid capital	Percentage of equity interest held (i)	Principal activities
Kai Hang Jewellery Company Limited	Hong Kong	Class A (non-voting) ordinary – HK$10,002 (ii)	–	Property holding
		Class B (voting) ordinary – HK$2	100%	
Macadam Profits Limited	British Virgin Islands	US$2	100%	Investment holding
Shenzhen Kai Hang Jewellery Co., Ltd. (iii)	Mainland China	HK$4,200,000	100%	Manufacture of gold products, other precious metal products and jewellery products

Notes:

(i) The shares of Macadam Profits Limited are held directly by the Company. The shares of other subsidiaries are held indirectly by the Company.

(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. and Shenzhen Kai Hang Jewellery Co., Ltd. are wholly foreign owned enterprises established in Mainland China to be operated for 30 years up to 2028 and 2034, respectively.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31st March 2005.

Notes to the Accounts

14 INVENTORIES

	2005 HK$'000	2004 HK$'000
Raw materials	196,736	213,107
Work-in-progress	160,141	155,291
Finished goods	399,151	232,960
	756,028	601,358

As at 31st March 2005, inventories of approximately HK$26,793,000 (2004: HK$8,699,000) were stated at net realisable value.

Certain inventories were held under trust receipts bank loan arrangements (see Note 18).

15 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:

	2005 HK$'000	2004 HK$'000
0 to 90 days	332,243	331,474
91 to 180 days	59,904	67,883
Over 180 days	6,721	4,429
	398,868	403,786
Less: Provision for bad and doubtful debts	(10,077)	(10,000)
	388,791	393,786

16 INVESTMENTS

	2005 HK$'000	2004 HK$'000
Unlisted investments, at cost	9,126	9,126
Add: Unrealised gain	132	288
	9,258	9,414

Investments represent units in investment funds. Investments of approximately HK$9,094,000 (2004: HK$9,251,000) were pledged as collateral for the Group's banking facilities (see Note 31).

Notes to the Accounts

17 BANK DEPOSITS

As at 31st March 2005, bank deposits of approximately HK$35,818,000 (2004: HK$100,624,000) were pledged as collateral for the Group's banking facilities (see Note 31).

As at 31st March 2005, bank deposits of approximately HK$3,583,000 (2004: HK$2,744,000) 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.

18 SHORT-TERM BANK BORROWINGS

	2005 HK$'000	2004 HK$'000
Bank overdrafts	–	36
Trust receipts bank loans	269,949	312,669
Gold loans from banks	106,784	140,934
Other short-term bank loans	73,248	87,056
	449,981	540,695

Short-term bank borrowings bear interest at rates ranging from approximately 1.7% to 6.3% per annum (2004: 1.6% to 6.0% per annum). Refer to Note 31 for details of the Group's banking facilities.

19 LONG-TERM BANK LOANS

	2005 HK$'000	2004 HK$'000
Amounts repayable		
– Within one year	95,301	66,290
– In the second year	199,328	23,266
– In the third to fifth year	75,302	21,452
– After the fifth year	814	16,857
	370,745	127,865
Less: Amounts repayable within one year included under current liabilities	(95,301)	(66,290)
	275,444	61,575

Long-term bank loans bear interest at effective rates ranging from approximately 1.6% to 6.5% per annum (2004: 1.6% to 6.3% per annum). Refer to Note 31 for details of the Group's banking facilities.

Notes to the Accounts

20 FINANCE LEASE OBLIGATIONS

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

	2005 HK$'000	2004 HK$'000
Total minimum lease payments under finance leases		
– Within one year	9,696	13,394
– In the second year	4,495	4,049
– In the third to fifth year	1,216	1,894
	15,407	19,337
Less: Future finance charges	(629)	(756)
	14,778	18,581
The present value of finance lease obligations was as follows:		
– Within one year	9,260	12,874
– In the second year	4,326	3,862
– In the third to fifth year	1,192	1,845
	14,778	18,581
Less: Amounts repayable within one year included under current liabilities	(9,260)	(12,874)
	5,518	5,707

As at 31st March 2005, finance lease obligations were secured by the Group's certain machinery, equipment and tools and motor vehicles with a total net book value of approximately HK$23,791,000 (2004: HK$29,466,000) (see Note 11) and corporate guarantee provided by the Company of HK$14,121,000 (2004: HK$16,338,000) (see Note 29).

21 ACCOUNTS PAYABLE

The ageing analysis of accounts payable was as follows:

	2005 HK$'000	2004 HK$'000
0 to 90 days	133,889	103,023
91 to 180 days	5,013	10,975
Over 180 days	1,156	1,330
	140,058	115,328

As at 31st March 2005, accounts payable of approximately HK$10,397,000 (2004: HK$7,395,000) was subject to interest at rates ranging from approximately 2.7% to 6.3% per annum (2004: 5.5% to 6% per annum).

Notes to the Accounts

22 TAXATION PAYABLE

	2005 HK$'000	2004 HK$'000
General provision for Mainland China taxes (i)	6,000	12,477
Hong Kong profits tax payable	6,742	–
	12,742	12,477

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.

23 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2004: 17.5%).

Movements of deferred tax liabilities were:

	2005 HK$'000	2004 HK$'000
Beginning of year	26,105	20,486
Deferred taxation charged to profit and loss account (Note 7)	3,261	5,619
End of year	29,366	26,105

Deferred income tax assets are recognised for tax losses carry forwards to the extent that realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK$30,849,000 (2004: HK$12,386,000), which subject to agreement by relevant tax authority, to carry forward against future taxable income with no expiry date.

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

Deferred tax liabilities

	Accelerated tax depreciation	
	2005 HK$'000	2004 HK$'000
Beginning of year	28,497	21,781
Charged to profit and loss account	3,768	6,716
End of year	32,265	28,497

Notes to the Accounts

23 DEFERRED TAXATION (continued)

Deferred tax assets

	Provisions		Accumulated tax losses		Total	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Beginning of year	1,411	1,295	981	–	2,392	1,295
(Charged)/Credited to profit and loss account	(48)	116	555	981	507	1,097
End of year	1,363	1,411	1,536	981	2,899	2,392

24 SHARE CAPITAL

Movements were:

	2005		2004	
	Number of shares '000	Nominal value HK$'000	Number of shares '000	Nominal value HK$'000
Authorised ordinary shares:				
Beginning of year	2,000,000	200,000	20,000,000	200,000
Share consolidation	–	–	(18,000,000)	–
End of year	2,000,000	200,000	2,000,000	200,000
Issued and fully paid ordinary shares:				
Beginning of year	560,794	56,079	4,690,640	46,906
Share consolidation	–	–	(4,221,576)	–
Issue of shares				
– placement	–	–	72,470	7,247
– exercise of employee share options	–	–	19,260	1,926
End of year	560,794	56,079	560,794	56,079

In February 2005, the Company announced a rights issue in the proportion of one rights share for every three existing ordinary shares held at a subscription price of HK$1.01 per share. In this connection, rights to subscribe 186,931,333 shares of HK$0.10 each, at HK$1.01 each were issued in April 2005. These rights issue was underwritten by Allglobe Holdings Limited, a company wholly-owned by Dr. Lam Sai Wing, a director of the Company. In April 2005, the rights were utilised to subscribe for 186,931,333 shares of the Company for net proceeds of approximately HK$186,005,000.

Notes to the Accounts

25 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 shares 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.

Movements of employee share options during the year ended 31st March 2005 were:

			Number of share options			
Date of grant	Exercise period	Exercise price	Beginning of year '000	Granted during the year '000	Exercised during the year '000	End of 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
New Scheme						
19th February 2003	31st July 2003 to 27th August 2012	HK$0.86	7,693	–	–	7,693
19th December 2003	19th December 2003 to 27th August 2012	HK$1.58	6,320	–	–	6,320
			61,313	–	–	61,313

During the year ended 31st March 2005, no share options were exercised.

In April 2005, certain options were exercised to subscribe for 3,800,000 shares of the Company for an aggregate amount of approximately HK$3,268,000.

Notes to the Accounts

26 RESERVES

Movements were:

Consolidated

	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1st April 2003	–	7,016	72,409	443,822	523,247
Issue of shares					
– placement	87,689	–	–	–	87,689
– exercise of employee share options	14,637	–	–	–	14,637
Share issue expenses	(2,958)	–	–	–	(2,958)
Profit attributable to shareholders	–	–	–	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
Share issue expenses (i)	(557)	–	–	–	(557)
Profit attributable to shareholders	–	–	–	106,636	106,636
2003/2004 final dividend	–	–	–	(3,365)	(3,365)
At 31st March 2005	98,811	7,016	72,409	597,656	775,892
Representing –					
Proposed 2004/2005 final dividend				28,558	
Others				569,098	
Retained profits at 31st March 2005				597,656	

Notes to the Accounts

26 **RESERVES** (continued)

Movements were:

Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus (ii) HK$'000	Retained profits HK$'000	Total HK$'000
At 1st April 2003	–	7,016	231,010	13,659	251,685
Issue of shares					
– placement	87,689	–	–	–	87,689
– exercise of employee share options	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
Share issue expenses (i)	(557)	–	–	–	(557)
Profit for the year	–	–	–	28,438	28,438
2003/2004 final dividend	–	–	–	(3,365)	(3,365)
At 31st March 2005	98,811	7,016	231,010	33,591	370,428
Representing –					
Proposed 2004/2005 final dividend				28,558	
Others				5,033	
Retained profits at 31st March 2005				33,591	

Notes:

(i) Share issue expenses incurred during the year ended 31st March 2005 represent the costs incurred relating to a rights issue in April 2005 (see Note 33b).

(ii) 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

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK$'000	2004 HK$'000
Operating profit	139,267	85,460
Interest income	(150)	(1,062)
Depreciation of fixed assets	121,450	109,096
(Gain)/Loss on disposals of fixed assets	(3,139)	955
Surplus on revaluation of an investment property	(360)	(100)
Unrealised loss/(gain) on unlisted investments	156	(194)
	257,224	194,155
Increase in inventories	(154,670)	(116,049)
Decrease/(Increase) in accounts receivable	4,995	(82,197)
Increase in prepayments, deposits and other receivables	(46,357)	(17,671)
Increase in amount due from related parties	(438)	–
Increase in accounts payable	24,730	43,249
Increase in accruals and other payables	3,546	6,425
Net cash inflow generated from operations	89,030	27,912

Notes to the Accounts

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing:

	Share capital and share premium HK$'000	Short-term bank borrowings HK$'000	Long-term bank loans HK$'000	Finance lease obligations HK$'000	Due to a director HK$'000
As at 1st April 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
Share issue expenses	(557)	–	–	–	–
New finance leases	–	–	–	15,516	–
Repayment of capital element of finance lease obligations	–	–	–	(19,319)	–
New bank borrowings	–	1,078,524	325,000	–	–
Repayment of bank borrowings	–	(1,169,202)	(82,120)	–	–
Repayment of amount due to a director	–	–	–	–	(7,736)
As at 31st March 2005	154,890	449,981	370,745	14,778	–

(c) Major non-cash transactions:

During the year ended 31st March 2005, 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$15,516,000 (2004: HK$181,000).

Notes to the Accounts

27 **NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT** (continued)

(d) Analysis of cash and cash equivalents:

	2005 HK$'000	2004 HK$'000
Cash and bank deposits	86,366	41,131
Bank overdrafts	–	(36)
	86,366	41,095

28 **COMMITMENTS**

(a) Capital commitments for capital expenditure:

	Consolidated		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Contracted but not provided				
– Machinery, equipment and tools	30,622	–	–	–

(b) 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	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Amounts payable				
– within one year	34,748	21,582	–	–
– in the second to fifth year	73,270	50,967	–	–
– after the fifth year	–	4,918	–	–
	108,018	77,467	–	–

Notes to the Accounts

29 CONTINGENT LIABILITIES

	Group		Company	
	2005 HK$'000	2004 HK$'000	2005 HK$'000	2004 HK$'000
Guarantees for banking facilities of the Company's subsidiaries	–	–	830,489	714,349
Guarantees for finance lease obligations of the Company's subsidiaries	–	–	14,121	16,338
	–	–	844,610	730,687

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.

30 PENSION SCHEME

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 2005, the amount of the Group's employer contributions to the pension schemes were approximately HK$4,380,000 (2004: HK$3,547,000).

Notes to the Accounts

31 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31st March 2005, the Group had aggregate banking facilities of approximately HK$1,099,585,000 (2004: HK$829,169,000) from several banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately HK$269,096,000 (2004: HK$154,210,000). These facilities were secured by:

(i) mortgages/pledge of the Group's land and buildings and furniture with an aggregate net book value of approximately HK$84,001,000 (2004: HK$86,292,000) (see Note 11);

(ii) pledge of the Group's investment property of approximately HK$1,680,000 (2004: HK$1,320,000) (see Note 12);

(iii) pledges of the Group's investments of approximately HK$9,094,000 (2004: HK$9,251,000) (see Note 16);

(iv) pledges of the Group's bank deposits of approximately HK$35,818,000 (2004: HK$100,624,000) (see Note 17);

(v) certain inventories of the Group were held under trust receipts bank loan arrangements (see Note 14);

(vi) assignment of the benefits in respect of a keyman insurance of Dr. Lam Sai Wing, a director of the Company, amounting to HK$78,500,000 (2004: HK$20,000,000) (see Note 32); and

(vii) guarantees provided by the Company of approximately HK$830,489,000 (2004: HK$714,349,000) (see Note 29).

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

32 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 transactions and balances with related parties are summarised below:

(a) Details of significant transactions with related parties were:

	2005 HK$'000	2004 HK$'000
Operating lease rentals paid to related parties which are beneficially owned by directors of the Company	**1,446**	–

In the opinion of the Company's Directors and the Group's management, the above transactions were carried out in the usual course of business of the Group, and in accordance with terms of the contracts entered into by the Group and the related parties.

Notes to the Accounts

32 RELATED PARTY TRANSACTIONS (continued)

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

	2005 HK$'000	2004 HK$'000
Dr. Lam Sai Wing	–	7,736

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

(c) Details of the amounts due from related parties were:

	2005 HK$'000	2004 HK$'000
Quality Prince Ltd.	6	–
S.W. Lam, Inc.	432	–
	438	–

Dr. Lam Sai Wing has beneficial interest in S.W. Lam, Inc. Quality Prince Ltd. is a wholly-owned subsidiary of S.W. Lam, Inc.

Details of the maximum balances outstanding during the year were disclosed pursuant to the disclosure requirements of the Hong Kong Companies Ordinance, as follows:

	2005 HK$'000	2004 HK$'000
Quality Prince Ltd.	6	–
S.W. Lam, Inc.	432	–

The balances with related parties are unsecured, non-interest bearing and without pre-determined repayment terms.

Notes to the Accounts

32 RELATED PARTY TRANSACTIONS (continued)

(d) During the year ended 31st March 2005, the Group disposed of land and buildings with a net book value of approximately HK$11,220,000 to Glory Hill Limited and Skyman Limited, both wholly-owned by Dr. Lam Sai Wing, for a cash consideration of HK$15,000,000. Such premises were then leased back to the Group for a period of three years to November 2007 at a monthly rental of approximately HK$165,000. Both the sales and lease-back arrangements were entered into on normal commercial terms according to the advice of a firm of professional surveyors.

(e) The Group's banking facilities are secured by assignment of the benefits in respect of a keyman insurance of Dr. Lam Sai Wing amounting to HK$78,500,000 (2004: HK$20,000,000) (see Note 31).

(f) The rights issue (see Note 24) undertook by the Company is underwritten by Allglobe Holdings Limited, a company wholly-owned by Dr. Lam Sai Wing.

33 SIGNIFICANT SUBSEQUENT EVENT

(a) In April 2005, 3,800,000 shares of the Company were issued for approximately HK$3,268,000 under the Company's employee share options scheme.

(b) In April 2005, the rights issue (see Note 24) was completed. The rights were utilised to subscribe for 186,931,333 shares of the Company for net proceeds of approximately HK$186,005,000.

34 APPROVAL OF ACCOUNTS

The accounts were approved by the board of directors on 21st July 2005.