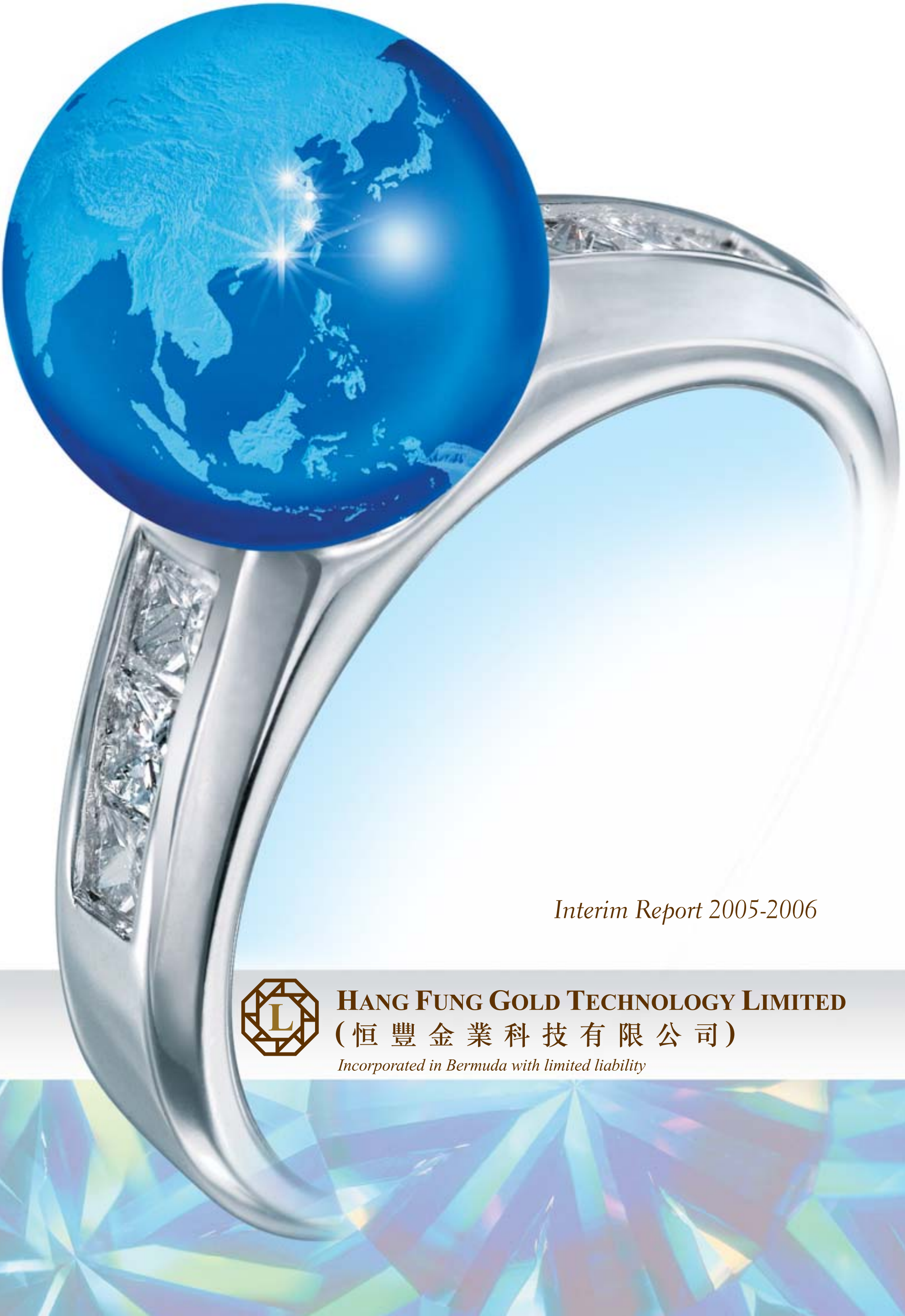

Interim Report 2005-2006

HANG FUNG GOLD TECHNOLOGY LIMITED
(恒 豐 金 業 科 技 有 限 公 司)

Incorporated in Bermuda with limited liability

The Directors of Hang Fung Gold Technology Limited ("the Company") are pleased to present the interim report together with the unaudited condensed consolidated financial information of the Company and its subsidiaries (together "the Group") for the six months ended 30 September 2005 together with comparative figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited Six months ended 30 September	
		2005	2004 Restated
	Note	*HK$'000*	*HK$'000*
Turnover	3	1,361,219	1,151,695
Cost of goods sold		(937,840)	(759,579)
Gross profit		423,379	392,116
Other gains – net		1,882	44
Selling and marketing costs		(213,350)	(245,116)
General and administrative expenses		(138,376)	(94,410)
Operating profit	4	73,535	52,634
Finance costs		(22,134)	(10,511)
Profit before income tax		51,401	42,123
Income tax expense	5	(2,994)	(510)
Profit attributable to equity holders of the Company		48,407	41,613
Dividend	6	7,626	–
Earnings per share for profit attributable to the equity holders of the Company during the period	7		
– Basic		HK6.69 cents	HK7.42 cents
– Diluted		HK6.66 cents	HK7.31 cents

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 September 2005 *HK$'000*	Restated 31 March 2005 *HK$'000*
Non-current assets			
Property, plant and equipment	8	626,941	513,052
Investment property	8	1,530	1,680
Leasehold land	8	5,831	5,900
		634,302	520,632
Current assets			
Inventories		870,849	756,028
Trade receivables	9	425,041	388,791
Prepayments, deposits and other receivables		35,933	78,435
Due from related parties	*15*	–	438
Investments		–	9,258
Other financial assets at fair value through profit and loss		9,634	–
Derivative financial instruments		170	–
Pledged bank deposits		35,892	35,818
Cash and cash equivalents		108,161	86,366
		1,485,680	1,355,134
Current liabilities			
Short-term bank borrowings		(469,580)	(449,981)
Long-term bank loans, current portion		(174,397)	(95,301)
Finance lease obligations, current portion		(6,421)	(9,260)
Trade payables	*10*	(129,058)	(140,058)
Accruals and other payables		(25,763)	(25,336)
Dividend payable		(28,608)	–
Taxation payable		(15,512)	(12,742)
		(849,339)	(732,678)
Net current assets		636,341	622,456
Total assets less current liabilities		1,270,643	1,143,088
Non-current liabilities			
Long-term bank loans		(197,452)	(275,444)
Finance lease obligations		(2,827)	(5,518)
Deferred taxation		(29,366)	(29,366)
		(229,645)	(310,328)
Net assets		1,040,998	832,760
Equity			
Share capital	*11*	75,153	56,079
Reserves	*13*	965,845	776,681
Shareholders' equity		1,040,998	832,760

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Unaudited Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Net cash used in operating activities	**(12,131)**	(53,476)
Net cash (used in)/generated from investing activities	**(172,867)**	425
Net cash generated from financing activities	**206,793**	28,878
Net increase/(decrease) in cash and cash equivalents	**21,795**	(24,173)
Cash and cash equivalents at 1 April	**86,366**	41,095
Cash and cash equivalents at 30 September	**108,161**	16,922
Analysis of balances of cash and cash equivalents		
Cash and bank deposits	**108,161**	16,922

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited Six months ended 30 September	
	2005	2004 Restated
	HK$'000	*HK$'000*
Total equity as at 1 April, as previously reported	831,971	729,257
Effect of the adoption of HKAS 17	789	603
Opening adjustment for the adoption of HKAS 39	(1,441)	–
Total equity as at 1 April, as restated	831,319	729,860
Profit for the period	48,407	41,613
Issue of shares		
– rights issue	188,801	–
– exercise of share options	3,268	–
Share issue expenses	(2,239)	–
Dividend	(28,558)	(3,365)
Total equity as at 30 September	1,040,998	768,108

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL INFORMATION

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 March 2005.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31 March 2005 except that the Group has changed certain of its accounting policies following its adoption of new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

This interim financial information has been prepared in accordance with those HKFRS standards and interpretations issued and effective as at the time of preparing this information. The HKFRS standards and interpretations that will be applicable at 31 March 2006, including those that will be applicable on an optional basis, are not known with certainty at the time of preparing this interim financial information.

The changes to the Group's accounting policies and the effect of adopting these new policies are set out in note 2 below.

2. CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRS

For the six months ended 30 September 2005, the Group adopted the new/revised standards of HKFRS below, which are relevant to its operations. The 2004/05 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-Int 15	Operating Leases – Incentives
HKFRS 2	Share-based Payments

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 33, 36 and HKAS-Int 15 did not result in substantial changes to the Group's accounting policies. In summary:

– HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36 and HKAS-Int 15 had no material effect on the Group's policies.

– HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. All the Group entities have the same functional currency as the presentation currency for respective entity financial statements.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the leasehold land was accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of hedging activities.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement as part of other income. In prior years, the increases in fair value were credited to the investment properties revaluation reserve. Decreases in fair value were first set off against increases on earlier valuations on a portfolio basis and thereafter expensed in the income statement.

The adoption of HKFRS 2 has resulted in a change in the accounting policy for share-based payments. Until 31 March 2005, the provision of share options to employees did not result in an expense in the income statements. Effective on 1 April 2005, the Group expenses the cost of share options in the income statement. As a transitional provision, the cost of share options granted after 7 November 2002 and had not yet vested on 1 April 2005 was expensed retrospectively in the income statement of the respective periods.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

– HKAS 16 – the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions.

– HKAS 21 – prospective accounting for goodwill and fair value adjustments as part of foreign operations.

– HKAS 39 – does not permit to recognize, derecognize and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004/05 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognized at 1 April 2005.

– HKAS 40 – since the Group has adopted the fair value model, there is no requirement for the Group to restate the comparative information, any adjustment should be made to the retained earnings as at 1 April 2005, including the reclassification of any amount held in revaluation surplus for investment property.

– HKAS-Int 15 – does not require the recognition of incentives for leases beginning before 1 April 2005.

– HKFRS 2 – only retrospective application for all equity instruments granted after 7 November 2002 and not vested at 1 April 2005.

(i) The adoption of revised HKAS 17 resulted in an increase in retaining earnings at 1 April 2004 by HK$603,000.

	30 September 2005 *HK$'000*	31 March 2005 *HK$'000*
Decrease in property, plant and equipment	**4,949**	5,111
Increase in leasehold land	**5,831**	5,900
Increase in reserves	**882**	789

	Year ended 31 March	**Six months ended 30 September**	
	2005 *HK$'000*	**2005** *HK$'000*	2004 *HK$'000*
Decrease in general and administrative expenses	186	**93**	93
Increase in basic earnings per share *(HK cent)*	0.03	**0.01**	0.02
Increase in diluted earnings per share *(HK cent)*	0.03	**0.01**	0.01

(ii) The adoption of HKAS 39 resulted in a decrease in retained earnings at 1 April 2005 by HK$1,441,000 and the details of the adjustments to the balance sheet at 30 September 2005 and income statement for the six months ended 30 September 2005 are as follows:

	30 September 2005 *HK$'000*
Decrease in prepayments, deposits and other receivables	2,415
Increase in other financial assets at fair value through profit and loss	9,634
Decrease in investments	9,634
Increase in derivative financial instruments (assets)	170
Decrease in bank borrowings	1,933

	Six months ended 30 September 2005 *HK$'000*
Increase in fair value gain on other financial assets at fair value through profit and loss	376
Decrease in unrealized gain on investments	376
Increase in fair value gain on derivative financial instruments	1,324
Increase in finance costs	195
Increase in basic earnings per share *(HK cent)*	0.16
Increase in diluted earnings per share *(HK cent)*	0.16

(iii) The adoption of revised HKAS 40 resulted in:

	Six months ended 30 September 2005 *HK$'000*
Increase in fair value loss on an investment property	150
Decrease in loss on revaluation of an investment property	150

(b) New accounting policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30 September 2005 are the same as those set out in note 1 to the annual financial statements for the year ended 31 March 2005 except for the following:

2.1 *Foreign currency translation*

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in HK dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component of equity.

2.2 *Property, plant and equipment*

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

2.3 *Investment properties*

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

The adoption of revised HKAS 40 has resulted in a change in the accounting policy of which the changes in fair values are recorded in the income statement.

2.4 *Impairment of assets*

Assets that have an indefinite useful life are not subject to amortization, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.5 *Investments*

From 1 April 2004 to 31 March 2005:

The Group classified its investments in securities, other than subsidiaries, as short-term investments.

Short-term investments were carried at fair value. At each balance sheet date, the net unrealized gains or losses arising from the changes in fair value of short-term investments were recognized in the income statement. Profits or losses on disposal of short-term investments, representing the difference between the net sales proceeds and the carrying amounts, were recognized in the income statement as they arose.

From 1 April 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss and loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

Purchases and sales of investments are recognized on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method. Realized and unrealized gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuer's specific circumstances.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired.

2.6 *Trade and other receivables*

Trade and other receivables are recognized initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognized in the income statement.

2.7 *Share capital*

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.8 *Borrowings*

Borrowings are recognized initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.9 *Share-based compensation*

The Group operates an equity-settled, share-based compensation plan. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognizes the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity over the remaining vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2.10 *Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognized either as cash is collected or on a cost-recovery basis as conditions warrant.

3. SEGMENT INFORMATION

(a) 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.

(b) Geographical segments

An analysis by geographical segment was as follows:

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Turnover[i]		
Hong Kong/Mainland China	**1,226,149**	1,001,982
South-East Asia	**79,334**	79,035
The United States of America	**49,377**	59,420
Europe	**5,794**	7,484
Others	**565**	3,774
	1,361,219	1,151,695
Segment results		
Hong Kong/Mainland China	**61,730**	39,048
South-East Asia	**3,673**	3,607
The United States of America	**6,782**	8,122
Europe	**1,328**	1,711
Others	**22**	146
	73,535	52,634

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.

4. OPERATING PROFIT

Operating profit was determined after charging:

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Amortisation of leasehold land	69	69
Depreciation of property, plant and equipment	58,293	59,010

5. INCOME TAX EXPENSE

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Current taxation		
– Hong Kong profits tax	(5,994)	(3,749)
– Write-back of over-provision of Mainland China taxes in prior years	3,000	3,239
	(2,994)	(510)

The Company is exempted from taxation in Bermuda until 2016. 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. No Mainland China enterprise income tax has been provided as the Group had no profit subject to such tax during the period.

6. DIVIDEND

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Proposed interim dividend of HK1.0 cent (2004: Nil) per share	7,626	–

7. EARNINGS PER SHARE

The calculation of basic earnings per share for the six months ended 30 September 2005 is based on the profit attributable to equity holders of the Company of approximately HK$48,407,000 (2004: HK$41,613,000) and on the weighted average number of approximately 723,696,120 shares (2004: 560,794,000 shares) in issue during the period.

The calculation of diluted earnings per share for the six months ended 30 September 2005 is based on the profit attributable to equity holders of the Company of approximately HK$48,407,000 (2004: HK$41,613,000) and on the weighted average number of approximately 727,343,167 shares (2004: 569,144,570 shares) in issue during the period, after adjusting for the potential dilutive effect of outstanding share options.

8. CAPITAL EXPENDITURE

	Property, plant and equipment *HK$'000*	Investment property *HK$'000*	Leasehold land *HK$'000*
Opening net book value as at 1 April 2004	412,205	1,320	6,038
Additions	79,627	–	–
Disposal	–	–	–
Depreciation/amortisation charge	(59,010)	–	(69)
Closing net book value as at 30 September 2004	432,822	1,320	5,969
Additions	154,635	–	–
Disposal	(12,289)	–	–
Surplus on revaluation	–	360	–
Depreciation/amortisation charge	(62,116)	–	(69)
Closing net book value as at 31 March 2005	513,052	1,680	5,900
Opening net book value as at 1 April 2005	513,052	1,680	5,900
Additions	172,793	–	–
Disposal	(611)	–	–
Fair value loss	–	(150)	–
Depreciation/amortisation charge	(58,293)	–	(69)
Closing net book value as at 30 September 2005	626,941	1,530	5,831

9. TRADE RECEIVABLES

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 trade receivables was as follows:

	30 September 2005 *HK$'000*	31 March 2005 *HK$'000*
0 to 90 days	432,744	332,243
91 to 180 days	152	59,904
Over 180 days	2,222	6,721
	435,118	398,868
Less: Provision for bad and doubtful debts	(10,077)	(10,077)
	425,041	388,791

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers. The net book value of trade receivables approximates to its fair value as at 30 September 2005.

The Group has recognized a loss of nil (year ended 31 March 2005: HK$77,000) for the impairment of its trade receivables during the six months ended 30 September 2005. The loss has been included in general and administrative expenses.

10. TRADE PAYABLES

The ageing analysis of trade payables was as follows:

	30 September 2005	31 March 2005
	HK$'000	*HK$'000*
0 to 90 days	**124,187**	133,889
91 to 180 days	**2,406**	5,013
Over 180 days	**2,465**	1,156
	129,058	140,058

11. SHARE CAPITAL

	Number of shares	**Nominal value**
	'000	*HK$'000*
Ordinary shares of HK$0.10 each		
Authorized		
At 1 April 2005 and at 30 September 2005	2,000,000	200,000
Issued and fully paid		
At 1 April 2005	560,794	56,079
Issue of shares		
– rights issue	186,931	18,694
– exercise of share options	3,800	380
At 30 September 2005	751,525	75,153

In April 2005, the Company issued 186,931,333 rights shares at HK$1.01 each on the basis of one rights share for every three existing shares held on the record date with a net proceeds of approximately HK$186,005,000 pursuant to a rights issue as described in the prospectus issued by the Company on 6 April 2005.

12. SHARE OPTIONS

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

Movements of share options during the six months ended 30 September 2005 were:

			Exercise price		Number of share options			
Participant	Date of grant	Exercise period	As at date of grant	As adjusted by rights issue	Beginning of period '000	Exercised during the period '000	Rights issue adjustment '000	End of period '000
Old Scheme								
Employees	9 June 2000	9 June 2001 to 26 February 2009	HK$1.09	HK$1.08	25,480	–	245	25,725
	10 April 2002	10 April 2003 to 26 February 2009	HK$1.49	HK$1.48	21,820	–	210	22,030
New Scheme								
Directors								
Mr. Lam Sai Wing	19 December 2003	19 December 2003 to 27 August 2012	HK$1.58	HK$1.56	3,160	–	30	3,190
Ms. Chan Yam Fai, Jane	19 December 2003	19 December 2003 to 27 August 2012	HK$1.58	HK$1.56	3,160	–	30	3,190
Employees	19 February 2003	31 July 2003 to 27 August 2012	HK$0.86	HK$0.85	7,693	(3,800)	38	3,931
					61,313	(3,800)	553	58,066

The number of shares for subscription and exercise prices of the share options were adjusted as a result of the rights issue of shares. There was no change in the fair value of outstanding share options in respect of the adjustment.

No options were granted, cancelled or lapsed during the six months ended 30 September 2005.

13. RESERVES

	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 April 2004, as previously reported	99,368	7,016	72,409	494,385	673,178
Effect of the adoption of HKAS 17	–	–	–	603	603
Balance at 1 April 2004, as restated	99,368	7,016	72,409	494,988	673,781
Profit for the period	–	–	–	41,613	41,613
2003/2004 final dividend	–	–	–	(3,365)	(3,365)
Balance at 30 September 2004	99,368	7,016	72,409	533,236	712,029
Share issue expenses	(557)	–	–	–	(557)
Profit for the period	–	–	–	65,209	65,209
Balance at 31 March 2005	98,811	7,016	72,409	598,445	776,681
Balance at 1 April 2005, as previously reported	98,811	7,016	72,409	597,656	775,892
Effect of the adoption of HKAS 17	–	–	–	789	789
Opening adjustment for the adoption of HKAS 39	–	–	–	(1,441)	(1,441)
Balance at 1 April 2005, as restated	98,811	7,016	72,409	597,004	775,240
Issue of shares					
– rights issue	170,107	–	–	–	170,107
– exercise of share options	2,888	–	–	–	2,888
Share issue expenses	(2,239)	–	–	–	(2,239)
Profit for the period	–	–	–	48,407	48,407
2004/2005 final dividend	–	–	–	(28,558)	(28,558)
Balance at 30 September 2005	269,567	7,016	72,409	616,853	965,845

Representing–

	Retained earnings HK$'000
Proposed 2005/2006 interim dividend	7,626
Others	609,227
Retained earnings at 30 September 2005	616,853

14. CONTINGENT LIABILITIES

The Group did not had any significant contingent liabilities as at 30 September 2005 (31 March 2005: Nil).

15. RELATED PARTY TRANSACTIONS

Significant transactions and balances with related parties are summarised below:

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

	Six months ended 30 September	
	2005	2004
	HK$'000	*HK$'000*
Operating lease rentals paid to related parties which are beneficially owned by directors of the Company	**2,103**	85

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.

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

	30 September 2005	31 March 2005
	HK$'000	*HK$'000*
Quality Prince Limited	**–**	6
S.W. Lam, Inc.	**–**	432
	–	438

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

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

(c) The Group's banking facilities as at 30 September 2005 are secured by assignment of the benefits in respect of a keyman insurance of Mr. Lam Sai Wing amounting to HK$78,500,000 (31 March 2005: HK$78,500,000).

(d) The rights issue (see Note 11) undertook by the Company is underwritten by Allglobe Holdings Limited, a company wholly-owned by Mr. Lam Sai Wing. The underwriting commission paid by the Company to Allglobe Holdings Limited in respect of the rights issue amounted to approximately HK$1,503,000.

INTERIM DIVIDEND

The Directors declared an interim dividend of HK1.0 cent (2004: Nil) per share to be payable on or about 22 February 2006 to shareholders whose names appear in the Register of Members of the Company on 25 January 2006.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 24 January 2006 to 25 January 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 23 January 2006.

MANAGEMENT DISCUSSION AND ANALYSIS

Results

For the six months ended 30 September 2005, the Group reported a turnover of HK$1,361,219,000, representing an 18.2% growth compared with HK$1,151,695,000 recorded in the corresponding period last year. Profit attributable to equity holders of the Company increased by 16.3% to HK$48,407,000 (2004: HK$41,613,000).

Business Review

Further relaxation of the Individual Travelers Scheme by the Mainland government of including four additional cities, Jinan, Qingdao, Shenyang and Dalian, combined with the grand opening of the Hong Kong Disneyland in September this year, has resulted in continuous growth in the number of Mainland visitors to Hong Kong, especially family visitors. To capitalise on such lucrative opportunities, the Group has already expanded its "3D-GOLD" Tourism Exhibition Hall to over 100,000 square feet of retail area to cope with significant surge in the number of visitors. Tourism sales are encouraging in the reporting period. In view of the strong retail market sentiment in Macau, the Group launched its first Macao "3D-GOLD" jewellery shop. Local retail market also showed positive growth with the improvement of economy. The Group's overall gross profit margin was 31.1% (2004: 34.0%) for this period.

Coupled with the expansion of retail business, the Group continued to promote the "3D-GOLD" brand and products in the period under review. The Group has successfully maintained such promotion costs in the period after its strong investment in the brand promotion in prior years. The selling and marketing costs has decreased to 15.7% (2004: 21.3%) of total turnover. General and administrative expenses showed an increase from 8.2% of total turnover in 2004 to 10.2% in the period, along with the general expansion in business volume of the Group. Finance costs increased from HK$10,511,000 in last period to HK$22,134,000, following the increase of interest rate in the period.

Geographically, Mainland China and Hong Kong remained as our largest markets accounting for 90.1% (2004: 87.0%) of the Group's turnover. The total sales from this region reached HK$1,226,149,000, an increase of HK$224,167,000 over last period's figure. Overseas sales amounted to HK$135,070,000 (2004: HK$149,713,000).

Prospects

Looking ahead, the Group will continue to strengthen its brand retailing business to benefit from the enormous opportunities arising from Individual Travelers Scheme and the opening of the Hong Kong Disneyland. Adhering to this strategy, the Group opened the sixth "3D-GOLD" jewellery shop in Tsuen Wan in December 2005. 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 2008. Management is confident that its brand retailing business will continue to generate fruitful returns for the Group.

Liquidity and Financial Resources

As at 30 September 2005, the Group maintained aggregate banking facilities of approximately HK$967,256,000 (31 March 2005: HK$1,099,585,000), of which HK$47,544,000 (31 March 2005: HK$269,096,000) 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 at 30 September 2005 amounted to HK$144,053,000 (31 March 2005: HK$122,184,000). 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.

In April 2005, the Company carried out a rights issue to enlarge the capital base by issuing 186,931,333 rights shares at HK$1.01 each on the basis of one rights share for every three existing shares held on the record date as described in the prospectus issued by the Company on 6 April 2005. The net proceeds of the rights issue of approximately HK$186,005,000 was used in the repayment of part of the Group's existing bank borrowings and the development of retailing business.

The Group's gearing ratio (ratio of aggregate bank borrowings less cash and bank deposits to equity) as at 30 September 2005 was decreased to 0.67 (31 March 2005: 0.84).

DIRECTORS' INTERESTS

As at 30 September 2005, 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 Companies 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	72,353,495	–	223,209,000 *(Note 1)*	295,562,495	39.33%	3,190,385 *(Note 2)*
Ms. Chan Yam Fai, Jane	–	–	–	–	–	3,190,384 *(Note 2)*
Mr. Lui Sun Wing	177,921	–	–	177,921	0.02%	–

(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. The 223,209,000 shares are owned as to 167,406,750 shares by Quality Prince Limited and 55,802,250 shares by Allglobe Holdings Limited. Quality Prince Limited is a company wholly owned by S.W. Lam, Inc., a company in which Mr. Lam Sai Wing holds approximately 82% interest through Good Day Holdings Limited, a company wholly owned by Mr. Lam Sai Wing. Accordingly, Mr. Lam Sai Wing is deemed to be interested in all shares in the Company held by Quality Prince Limited. Allglobe Holdings Limited is a company wholly owned by Mr. Lam Sai Wing.

2. The interests of the directors in the share options of the Company are separately disclosed in Note 12 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 30 September 2005, 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 Companies 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 30 September 2005, 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:

	Long positions	
Name	**Number of shares**	**Percentage holding**
Good Day Holdings Limited *(Note 1)*	167,406,750	22.28%
S.W. Lam, Inc. *(Note 1)*	167,406,750	22.28%
Quality Prince Limited *(Note 1)*	167,406,750	22.28%
Phenomenal Limited	68,843,250	9.16%
Allglobe Holdings Limited *(Note 2)*	55,802,250	7.43%

Notes:

1. Quality Prince Limited is a company wholly owned by S.W. Lam, Inc., a company in which Mr. Lam Sai Wing holds approximately 82% interest through Good Day Holdings Limited, a company wholly owned by Mr. Lam Sai Wing.

2. Allglobe Holdings Limited is a company wholly owned by Mr. Lam Sai Wing.

Save as disclosed above, as at 30 September 2005, 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 30 September 2005.

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 30 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.

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the Directors, the Company has compiled with the code provisions listed in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the six months ended 30 September 2005, with the exception of the following deviations:

Under the code provision A.4.1, non-executive directors should be appointed for a specific term and under A.4.2, every director should be subject to retirement by rotation at least once every three years. Currently, non-executive Directors are not appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the Company's Bye-Laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code. Furthermore, under the Company's Bye-Laws, the chairman of the Board and the managing director of the Company are not subject to retirement by rotation. This constitutes a deviation from the code provision A.4.2. To comply with the code provision, relevant amendments to the Company's Bye-Laws will be proposed at the next annual general meeting.

AUDIT COMMITTEE

The Audit Committee of the Company comprises of one non-executive Director, namely, Mr. Wong Kwong Chi and four independent non-executive Directors, namely, Mr. Liu Ngai Wing, Mr. Lee Kok Keung, Mr. Lui Sun Wing and Mr. Lou Ping Ho.

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 30 September 2005.

REMUNERATION COMMITTEE

To comply with the Code, a remuneration committee was established on 12 May 2005 with specific written terms of reference which deal clearly with its authority and duties. The remuneration committee comprises of one executive director, namely Mr. Lam Sai Wing, one non-executive Director, namely, Mr. Wong Kwong Chi and four independent non-executive Directors, namely, Mr. Liu Ngai Wing, Mr. Lee Kok Keung, Mr. Lui Sun Wing and Mr. Lou Ping Ho.

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, Mr. Lui Sun Wing and Mr. Lou Ping Ho.

By Order of the Board
Lam Sai Wing
Chairman

Hong Kong, 21 December 2005