# Notes to the Financial Statements

## 1 GENERAL INFORMATION

Hang Fung Gold Technology Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") are principally engaged in the manufacturing, wholesaling, trading and retailing of gold products, other precious metal products and jewellery products.

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda.

The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in thousands of units of Hong Kong dollars, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20 July 2006.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### (a) Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment property, financial assets and liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise their judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

*The adoption of new/revised HKFRS*

During the year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 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: Disclosure and Presentation |
| HKAS 33 | Earnings per Share |
| HKAS 36 | Impairment of Assets |
| HKAS 39 | Financial Instruments: Recognition and Measurement |
| HKAS 39 (Amendment) | Transition and Initial Recognition of Financial Assets and Financial Liabilities |
| HKAS 40 | Investment Property |
| HKAS-Int 15 | Operating Leases – Incentives |
| HKAS-Int 21 | Income Taxes – Recovery of Revalued Non-depreciated Assets |
| 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-Ints 15 and 21 did not result in substantial changes to the Group's accounting policies.

– HKAS 1 has affected the disclosures of financial statements.

– HKASs 2, 7, 8, 10, 16, 23, 27, 33, 36, HKAS-Ints 15 and 21 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. Except for subsidiaries established in Mainland China which have functional currency of Hong Kong dollars and presentation currency of Chinese Renminbi, all other 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

*The adoption of new/revised HKFRS (continued)*

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of leasehold land and land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the leasehold land and land use rights 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 accounting policy relating to the classification of financial assets at fair value through profit or loss. 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 statement. 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. The adoption of HKFRS 2 had no material financial impact on the financial statements as at and for the year ended 31 March 2006 and 2005 as all share options held by the Group were granted before 7 November 2002 or vested on or before 1 April 2005.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. 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 for at fair value prospectively only to future transactions;

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

*The adoption of new/revised HKFRS (continued)*

– HKAS 39 – does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis;

– 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 January 2005; and

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

The adoption of revised HKAS 17 resulted in an increase in retained earnings at 1 April 2004 by HK$603,000 and details of the adjustments to the financial statements are as follows:

(i) Effect on income statement for the year ended 31 March 2006 and 2005

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Decrease in administrative expenses | **186** | 186 |
| Increase in basic earnings per share (HK cents) | **–** | – |
| Increase in diluted earnings per share (HK cents) | **–** | – |

(ii) Effect on balance sheet as at 31 March 2006 and 2005

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Decrease in property, plant and equipment | **4,786** | 5,111 |
| Increase in leasehold land | **5,761** | 5,900 |
| Increase in retained earnings | **975** | 789 |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

*The adoption of new/revised HKFRS (continued)*

The adoption of HKASs 32 and 39 resulted in a decrease in retained earnings at 1 April 2005 by HK$1,441,000 and details of the adjustments to the financial statements are as follows:

(i) Effect on income statement for the year ended 31 March 2006

| | HK$'000 |
|---|---|
| Increase in fair value gain on other financial assets at fair value through profit or loss | **309** |
| Decrease in unrealised gain on investments | **309** |
| Increase in fair value gain on derivative financial instruments | **1,563** |
| Increase in basic earnings per share (HK cents) | **0.2** |
| Increase in diluted earnings per share (HK cents) | **0.2** |

(ii) Effect on balance sheet as at 31 March 2006

| | HK$'000 |
|---|---|
| Decrease in prepayments, deposits and other receivables | **7,003** |
| Increase in other financial assets at fair value through profit or loss | **3,726** |
| Decrease in investments | **3,726** |
| Increase in derivative financial instruments (assets) | **725** |
| Decrease in bank borrowings | **6,400** |
| Increase in retained earnings | **122** |

The adoption of HKAS 40 resulted in:

(i) Effect on income statement for the year ended 31 March 2006

| | HK$'000 |
|---|---|
| Increase in fair value loss of an investment property | **150** |
| Decrease in loss on revaluation of an investment property | **150** |

At the date of approval of these financial statements, the Group has not early adopted the following new standards and interpretations which have been issued but are not yet effective. It is expected that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (a) Basis of preparation (continued)

*The adoption of new/revised HKFRS (continued)*

| | |
|---|---|
| HKAS 1 (Amendment) | Presentation of Financial Statements – Capital Disclosures |
| HKAS 19 (Amendment) | Employee Benefits |
| HKAS 21 (Amendment) | Net Investment in a Foreign Operation |
| HKAS 39 (Amendment) | Cash Flow Hedge Accounting of Forecast Intragroup Transactions |
| HKAS 39 (Amendment) | The Fair Value Option |
| HKAS 39 and HKFRS 4 (Amendments) | Financial Guarantee Contracts |
| HKFRS 1 and HKFRS 6 (Amendments) | First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources |
| HKFRS 6 | Exploration for and Evaluation of Mineral Resources |
| HKFRS 7 | Financial Instruments: Disclosures |
| HKFRS-Int 4 | Determining whether an Arrangement contains a Lease |
| HKFRS-Int 5 | Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds |
| HK(IFRIC)-Int 6 | Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment |
| HK(IFRIC)-Int 7 | Financial Reporting in Hyperinflationary Economics |

### (b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 March.

*Subsidiaries*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (b) Consolidation (continued)

*Subsidiaries (continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

### (c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

### (d) 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 Hong Kong dollars, which is the Company's functional and presentation currency.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (d) Foreign currency translation (continued)

*(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 recognised in the income statement.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale financial assets are included in the fair value reserve in equity.

*(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 recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (e) Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 20 years |
| Leasehold improvements | 5 years |
| Furniture and office equipment | 5-8 years |
| Machinery, equipment and tools | 4-7 years |
| Motor vehicles | 5 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2(g)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

### (f) Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the consolidated Group, is classified as investment property.

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.

Investment property is measured initially at its cost, including related transaction costs.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (f) Investment properties (continued)

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are performed in accordance with the guidance issued by the International Valuation Standards Committee. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

### (g) Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and 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 recognised 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). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Financial assets

***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 unrealised gains or losses arising from the changes in fair value of short-term investments were recognised 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 recognised in the income statement as they arose.

***From 1 April 2005 onwards***

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

*(i) 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 realised within 12 months of the balance sheet date.

*(ii) 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 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 classified as trade and other receivables in the balance sheet.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (h) Financial assets (continued)

Regular purchases and sales of investments are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Investments are derecognised 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. Gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category including interest and dividend income, are presented in the income statement within 'other gains, net', 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, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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.

### (i) Accounting for derivative financial instruments and hedging activities

***From 1 April 2004 to 31 March 2005***

Derivative financial instruments are designated 'hedging' or 'non-hedging instruments'. The transactions that, according to the Group's policy for risk management, are able to meet the conditions for hedge accounting are classified as hedging transactions; the others, although set up for the purpose of managing risk (since the Group's policy does not permit speculative transactions), have been designated as 'trading'. The Group records derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the income statement on maturity to match the underlying hedged transactions where relevant.

***From 1 April 2005 onwards***

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge) or (2) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transactions (cash flow hedges).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Accounting for derivative financial instruments and hedging activities (continued)

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) *Fair value hedge*

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains, net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in the income statement within 'finance costs'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedge item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) *Cash flow hedge*

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within 'other gains, net'.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (i) Accounting for derivative financial instruments and hedging activities (continued)

*(c) Derivatives that do not qualify for hedge accounting*

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other gains, net'.

### (j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out method. The cost of finished goods and work-in-progress comprises materials, direct labour, other direct costs and related production overhead expenditure. It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### (k) Trade and other receivables

Trade and other receivables are recognised 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. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. 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 recognised in the income statement.

### (l) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### (m) 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (n) Borrowings

Borrowings are recognised 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 recognised in the income statement over the period of the borrowings using the effective interest method.

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 income statement.

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.

### (o) Deferred income tax

Deferred income tax 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 consolidated financial statements. However, the deferred income tax, if it is not accounted for, arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

### (p) 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (p) Employee benefits (continued)

*(ii) Pension obligations*

Group companies operate several defined contribution plans. The plans are generally funded through payments to trustee-administered funds. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The contributions are recognised as employment cost when they are due and are not reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contributions. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

*(iii) 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 recognised 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 recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

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.

### (q) Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (r) Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

*(i) Sales of goods*

Sales of goods are recognised when a group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured.

*(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 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 recognised using the original effective interest rate.

### (s) Leases (as the lessee)

*(a) Operating lease*

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged in the income statement on a straight-line basis over the period of the lease.

*(b) Finance lease*

Leases of assets where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The interest element of the finance cost is expensed in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### (t) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

## 3 FINANCIAL RISK MANAGEMENT

### (a) Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, price risk, credit risk, liquidity risk and cash flow and fair value interest rate risk.

*(i) Foreign exchange risk*

The Group operates mainly in Hong Kong and accepts Chinese Renminbi as a settlement currency of its retail sales in Hong Kong. The Group is exposed to foreign exchange risk arising from the exposure of Chinese Renminbi against Hong Kong dollars. The Group has not hedged foreign exchange rate risk.

*(ii) Price risk*

Majority of the raw materials used by the Group are gold and precious stones and they are subject to market price risk. The price risk of certain raw materials is hedged by gold loan of the Group.

*(iii) Credit risk*

The Group has policies in place to ensure that the sales of products are made to customers with appropriate credit history and the Group performs credit evaluation of its customers. The Group also has policies that limit the amount of credit exposure to any financial institution.

*(iv) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

*(v) Cash flow and fair value interest rate risk*

The Group' s income and operating cash flows are substantially independent of the changes in market interest rates as the Group has no significant interest-bearing assets. The Group's exposure to changes in interest rates is mainly attributable to its borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings have been disclosed in Notes 28, 29 and 32.

The Group manages its cash flow interest-rate risk by using floating-to-fixed interest-rate swaps. Such interest-rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Generally, the Group raises long-term borrowings at floating rates and enters into interest rate swaps, when market conditions prevail, to reduce the interest rate risk. Under the interest-rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly quarterly), the difference between fixed contract rates and floating-rate interest amounts calculated by reference to the agreed notional principal amounts.

## 3 FINANCIAL RISK MANAGEMENT (continued)

### (b) Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The fair value of interest-rate swaps is calculated as the present value of the estimated future cash flows.

The nominal value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

### (a) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

### (b) Write-downs of inventories to net realisable value

The Group writes down inventories to net realisable value based on an estimate of the realisability of inventories. Write-downs on inventories are recorded where events or changes in circumstances indicate that the balances may not realised. The identification of write-downs requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact the carrying value of inventories and write-downs of inventories in the periods in which such estimate has been changed.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

### (c) Impairment of trade and other receivables

The Group makes provision for impairment of trade and other receivables based on an estimate of the recoverability of these receivables. Provisions are applied to trade and other receivables where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment of trade and other receivables requires the use of estimates. Where the expectation is different from the original estimate, such difference will impact carrying value of receivables and provision for impairment losses in the period in which such estimate has been changed.

### (d) Impairment of non-financial assets

The Group tests annually whether assets have suffered any impairment. The recoverable amounts of cash-generating units are determined by the value-in-use calculations. These calculations require the use of estimates.

### (e) Income taxes

The Group is subject to income taxes in Mainland China and Hong Kong. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

## 5 SALES ANALYSIS AND SEGMENT INFORMATION

### (a) Analysis of sales by category

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| Sales of goods | **2,880,037** | 2,566,742 |

### (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.

## 5 SALES ANALYSIS AND SEGMENT INFORMATION (continued)

### (c) Geographical segments

An analysis by geographical segment is as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Sales (i) | | |
| – Hong Kong/Mainland China | **2,656,314** | 2,292,966 |
| – South-East Asia | **103,375** | 156,358 |
| – The United States of America | **107,712** | 103,961 |
| – Europe | **12,028** | 13,192 |
| – Others | **608** | 265 |
| | **2,880,037** | 2,566,742 |
| Segment results | | |
| – Hong Kong/Mainland China | **164,210** | 112,655 |
| – South-East Asia | **5,564** | 8,522 |
| – The United States of America | **16,418** | 15,130 |
| – Europe | **2,939** | 3,133 |
| – Others | **33** | 13 |
| | **189,164** | 139,453 |

Note:

(i) Sales 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.

## 6 OTHER GAINS, NET

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Rental income | **12** | 72 |
| Net gains on sale of property, plant and equipment | **28,249** | 3,139 |
| Change in fair value of investment property | **(150)** | 360 |
| Fair value gains on derivative financial instruments | **1,563** | – |
| Change in fair values on other financial assets at fair value through profit or loss | **309** | – |
| Unrealised loss on unlisted investments | **–** | (156) |
| Gains on trading of gold | **10,477** | – |
| Loss on disposal of other financial assets at fair value through profit or loss | **(401)** | – |
| Change in fair value of gold loan | **(31,842)** | (1,130) |
| Net exchange gains | **8,425** | 7,121 |
| Interest income | **1,254** | 150 |
| | **17,896** | 9,556 |

## 7 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Employee benefit expense (including directors' emoluments) (Note 8) | **138,684** | 118,962 |
| Advertising and promotion costs | **40,016** | 45,789 |
| Operating lease rentals in respect of office, shop and factory premises | **42,621** | 31,250 |
| Depreciation of property, plant and equipment | | |
| – owned assets | **107,245** | 112,749 |
| – assets held under finance lease obligations | **4,678** | 8,114 |
| Amortisation of leasehold land | **139** | 401 |
| Auditors' remuneration | **1,910** | 1,680 |

## 8 EMPLOYEE BENEFIT EXPENSE

Employee benefit expense, including directors' emoluments, consisted of:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Salaries, wages, commission and allowances | **133,701** | 114,582 |
| Pension costs – contributions to defined contribution plans and provision for long-service payments | **4,983** | 4,380 |
| | **138,684** | 118,962 |

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 31 March 2006, the amount of the Group's employer contributions to the pension schemes were approximately HK$4,983,000 (2005: HK$4,380,000).

## 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The remuneration of every director for the year ended 31 March 2006 is set out below:

| Name of director | Fee HK$'000 | Salaries, wages, commission and allowances HK$'000 | Discretionary bonus HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Executive directors | | | | | |
| Dr. Lam Sai Wing | – | 6,605 | 2,900 | 12 | 9,517 |
| Ms. Chan Yam Fai, Jane | – | 397 | – | 12 | 409 |
| Non-executive director | | | | | |
| Mr. Wong Kwong Chi | – | – | – | – | – |
| Independent non-executive directors | | | | | |
| Mr. Lee Kok Keung | 100 | – | – | – | 100 |
| Mr. Liu Ngai Wing | 100 | – | – | – | 100 |
| Dr. Lui Sun Wing (i) | 90 | – | – | – | 90 |
| Mr. Lou Ping Ho | 100 | – | – | – | 100 |
| | 390 | 7,002 | 2,900 | 24 | 10,316 |

The remuneration of every director for the year ended 31 March 2005 is set out below:

| Name of director | Fee HK$'000 | Salaries, wages, commission and allowances HK$'000 | Discretionary bonus HK$'000 | Employer's contribution to pension scheme HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| Executive directors | | | | | |
| Dr. Lam Sai Wing | – | 5,632 | – | 12 | 5,644 |
| Ms. Chan Yam Fai, Jane | – | 390 | – | 12 | 402 |
| Non-executive director | | | | | |
| Mr. Wong Kwong Chi | – | – | – | – | – |
| Independent non-executive directors | | | | | |
| Mr. Lee Kok Keung | 100 | – | – | – | 100 |
| Mr. Liu Ngai Wing | 100 | – | – | – | 100 |
| Mr. Lou Ping Ho (ii) | 51 | – | – | – | 51 |
| | 251 | 6,022 | – | 24 | 6,297 |

## 9 DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

### (a) Directors' emoluments (continued)

Notes:

(i) Dr. Lui Sun Wing was appointed on 9 May 2005.

(ii) Mr. Lou Ping Ho was appointed on 28 September 2004.

During the year, Dr. Lam Sai Wing and Ms. Chan Yam Fai, Jane waived emoluments of nil and approximately HK$904,000 (2005: HK$1,050,000 and HK$910,000), respectively, 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 (2005: Nil).

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included one (2005: one) director, whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining four (2005: four) individuals were as follows:

| | **2006**<br>**HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| Basic salaries and allowances | **2,633** | 2,516 |
| Bonus | **226** | 210 |
| Contributions to pension scheme | **48** | 48 |
| | **2,907** | 2,774 |

The emoluments fell within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2006** | 2005 |
| – HK$500,001 to HK$1,000,000 | **3** | 3 |
| – 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 (2005: Nil).

## 10 FINANCE COSTS

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Interest on | | |
| – bank overdrafts and borrowings wholly repayable within five years | **44,375** | 20,403 |
| – gold loans wholly repayable within five years | **1,918** | 2,072 |
| – bank borrowings not wholly repayable within five years | **–** | 104 |
| – trade payable to suppliers | **4,227** | 1,912 |
| – finance lease obligations | **628** | 939 |
| | **51,148** | 25,430 |
| Amortisation of loan arrangement fee | **–** | 1,035 |
| | **51,148** | 26,465 |

## 11 INCOME TAX EXPENSE

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Current income tax | | |
| – Hong Kong profits tax | **3,310** | 8,810 |
| – (Over)/under-provision in prior years | **(82)** | 572 |
| – Write-back of over-provision of Mainland China taxes in prior years (v) | **(6,000)** | (6,477) |
| | **(2,772)** | 2,905 |
| Deferred taxation | **11,181** | 3,261 |
| | **8,409** | 6,166 |

Notes:

**(i) Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong.

## 11 INCOME TAX EXPENSE (continued)

**(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 31 March 2006 (2005: 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 31 March 2006. As such, the first profitable year had not commenced as at 31 March 2006. Shenzhen Kai Hang Jewellery Co., Ltd. was established in September 2004 and had no assessable profit subject to such tax during the year (2005: Nil).

**(iii) Macao Complementary (Corporate) Tax**

Macao Complementary (Corporate) Tax has been provided at progressive rates ranging from 3% to 9% on the estimated assessable profit below HK$291,000 (approximately MOP300,000) and a fixed rate of 12% on the estimated assessable profit in excess of HK$291,000 (approximately MOP300,000).

**(iv) Overseas income taxes**

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

**(v)** Prior to 1 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 has been reviewed periodically and was written back as it is unlikely that it would be crystallised after carrying over the provision for a period of six years.

The tax on the Group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits on the group companies as follows:

| | **2006<br>HK$'000** | 2005<br>HK$'000 |
|---|---|---|
| Profit before income tax | **138,016** | 112,988 |
| Tax calculated at weighted average tax rate applicable to profits generated in the respective countries/places | **24,261** | 19,772 |
| Tax effect of income not subject to taxation | **(15,855)** | (10,977) |
| Tax effect of expenses not deductible for taxation purposes | **1,132** | 388 |
| Unrecognised tax losses | **4,953** | 2,952 |
| Utilisation of previously unrecognised tax losses | **–** | (32) |
| (Over)/under provision in prior years | **(82)** | 572 |
| Write-back of over-provision of Mainland China taxes in prior years | **(6,000)** | (6,477) |
| Others | **–** | (32) |
| Taxation charge | **8,409** | 6,166 |

## 12 PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company included a profit of approximately HK$28,850,000 (2005: HK$28,438,000) dealt with in the financial statements of the Company.

## 13 DIVIDENDS

| | **2006** **HK$'000** | 2005 HK$'000 |
|---|---|---|
| Interim dividend of HK1.0 cent (2005: nil) | **7,631** | – |
| Proposed final dividend of HK3.0 cents (2005: HK2.8 cents) per share | **22,892** | 21,043 |
| Proposed special dividend of nil (2005: HK1.0 cent) per share | **–** | 7,515 |
| | **30,523** | 28,558 |

The dividends paid during the year ended 31 March 2006 and 2005 were HK$36,189,000 (HK4.8 cents per share) and HK$3,365,000 (HK0.6 cent per share) respectively. A final dividend in respect of the year ended 31 March 2006 of HK3.0 cents per share, which will be satisfied by cash, with an alternative to shareholders to elect to receive such final dividend (or part thereof) by way of scrip of dividend, amounting to a total dividend of HK$22,892,000, is proposed for approval at the upcoming Annual General Meeting. The proposed dividend has not been dealt with as a dividend payable as at 31 March 2006 but has been dealt with as an appropriation of retained earnings for the year ended 31 March 2006.

## 14 EARNINGS PER SHARE

### Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

| | **2006** | 2005 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK thousands dollar) | **129,607** | 106,822 |
| Weighted average number of ordinary shares in issue (thousands) | **761,986** | 567,452 |
| Basic earnings per share (HK cents per share) | **17.0** | 18.8 |

### Diluted

Diluted earnings per share is calculated adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has outstanding share options which are dilutive potential ordinary shares. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

| | **2006** | 2005 |
|---|---|---|
| Profit attributable to equity holders of the Company (HK thousands dollar) | **129,607** | 106,822 |
| Weighted average number of ordinary shares in issue (thousands) | **761,986** | 567,452 |
| Adjustments for share options (thousands) | **1,168** | 5,357 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands) | **763,154** | 572,809 |
| Diluted earnings per share (HK cents per share) | **17.0** | 18.6 |

## 15 PROPERTY, PLANT AND EQUIPMENT

**Group**

| | Buildings HK$'000 | Leasehold improvements, furniture and office equipment HK$'000 | Machinery, equipment and tools HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2004 | | | | | |
| Cost | 5,002 | 290,672 | 540,134 | 3,644 | 839,452 |
| Accumulated depreciation | (774) | (79,447) | (354,328) | (1,630) | (436,179) |
| Net book amount | 4,228 | 211,225 | 185,806 | 2,014 | 403,273 |
| Net book value at 1 April 2004 | 4,228 | 211,225 | 185,806 | 2,014 | 403,273 |
| Additions | – | 189,176 | 44,374 | 712 | 234,262 |
| Depreciation for the year | (173) | (37,274) | (82,869) | (547) | (120,863) |
| Disposals | (2,551) | (820) | – | (249) | (3,620) |
| Closing net book amount | 1,504 | 362,307 | 147,311 | 1,930 | 513,052 |
| At 31 March 2005 | | | | | |
| Cost | 1,910 | 478,296 | 584,508 | 3,995 | 1,068,709 |
| Accumulated depreciation | (406) | (115,989) | (437,197) | (2,065) | (555,657) |
| Net book amount | 1,504 | 362,307 | 147,311 | 1,930 | 513,052 |
| Net book value at 1 April 2005 | 1,504 | 362,307 | 147,311 | 1,930 | 513,052 |
| Additions | – | 355,424 | 1,035 | 272 | 356,731 |
| Depreciation for the year | (95) | (42,648) | (68,575) | (605) | (111,923) |
| Disposals | – | (29,966) | – | (160) | (30,126) |
| Closing net book amount | 1,409 | 645,117 | 79,771 | 1,437 | 727,734 |
| At 31 March 2006 | | | | | |
| Cost | 1,910 | 797,372 | 585,543 | 3,896 | 1,388,721 |
| Accumulated depreciation | (501) | (152,255) | (505,772) | (2,459) | (660,987) |
| Net book amount | 1,409 | 645,117 | 79,771 | 1,437 | 727,734 |

## 15 PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation expense is analysed as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Cost of goods sold | **68,766** | 82,862 |
| Administrative expenses | **43,157** | 38,001 |
| | **111,923** | 120,863 |

(b) The Group's interests in buildings are analysed as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Buildings in Hong Kong, located on land with leases of between 10 to 50 years | **1,409** | 1,504 |

### (c) Pledge of assets

Buildings and furniture with an aggregate net book value of approximately HK$76,681,000 (2005: HK$78,890,000) are mortgaged/pledged as collateral for the Group's banking facilities (Note 36).

### (d) Finance leases

Certain machinery, equipment and tools and motor vehicles were purchased under finance leases (Note 29). Details of these assets were as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Cost | **23,388** | 41,163 |
| Less: accumulated depreciation | **(14,308)** | (17,372) |
| Net book amount | **9,080** | 23,791 |
| Depreciation for the year | **4,678** | 8,114 |

## 16 INVESTMENT PROPERTY

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Beginning of year | **1,680** | 1,320 |
| Change in fair values (included in other gains, net) (Note 6) | **(150)** | 360 |
| Disposal | **(1,530)** | – |
| End of year | **–** | 1,680 |

As at 31 March 2005, the investment property of approximately HK$1,680,000 was pledged as collateral for the Group's banking facilities (Note 36).

The Group's interests in investment property at their net book values are analysed as follows:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Buildings in Hong Kong, located on land with leases of between 10 to 50 years | **–** | 1,680 |

## 17 LEASEHOLD LAND

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| In Hong Kong, held on: | | |
| Leases of between 10 to 50 years | **5,761** | 5,900 |

Leasehold land with a carrying amount of HK$5,761,000 (2005: HK$5,900,000) was pledged as collateral for the Group's banking facilities (Note 36).

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Beginning of year | **5,900** | 14,970 |
| Disposal | **–** | (8,669) |
| Amortisation | **(139)** | (401) |
| End of year | **5,761** | 5,900 |

## 18 INVESTMENTS IN AND DUE FROM SUBSIDIARIES

### (a) Investments in subsidiaries

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

| | Company | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted shares, at cost | **158,743** | 158,743 |

## 18 INVESTMENTS IN AND DUE FROM SUBSIDIARIES (continued)

### (a) Investments in subsidiaries (continued)

Details of the principal subsidiaries as at 31 March 2006 are as follows:

| Name | Place of incorporation/ operations | Issued and fully paid capital | Percentage of equity interest held (i) | Principal activities |
|---|---|---|---|---|
| Expo Global Limited | Hong Kong | HK$100 | 100% | Retailing of gold products, other precious metal products and jewellery products |
| 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 |
| Gold Ocean Jewellery Company | Macau | MOP500,000 | 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)<br>Class B (voting) ordinary – HK$2 | –<br>100% | Manufacture and selling of gold products, other precious metal products and jewellery products. |
| Hang Fung Development International Company Limited | Hong Kong | HK$2 | 100% | Retailing of gold products, other precious metal products and jewellery products |
| 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 |

## 18 INVESTMENTS IN AND DUE FROM SUBSIDIARIES (continued)

### (a) 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 and selling of gold products, other precious metal products and jewellery products |
| | | Class B (voting) ordinary – HK$2 | 100% | |
| Macadam Profits Limited | British Virgin Islands/ Hong Kong | 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 31 March 2006 (2005: Nil).

### (b) Due from subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand (2005: not repayable within one year).

## 19 INVENTORIES

| | Group | |
|---|---|---|
| | **2006** **HK$'000** | 2005 HK$'000 |
| Raw materials | **191,856** | 196,736 |
| Work-in-progress | **232,510** | 160,141 |
| Finished goods | **464,899** | 399,151 |
| | **889,265** | 756,028 |

The cost of inventories recognised as expense and included in cost of goods sold amounted to HK$1,928,166,000 (2005: HK$ 1,664,728,000).

The Group has provided an inventory provision of HK$1,600,000 (2005: Write-back of HK$624,000) for the year ended 31 March 2006. Such provision has been included in cost of goods sold in the income statement.

Certain inventories were held under trust receipts bank loan arrangements (Note 36).

## 20 TRADE RECEIVABLES

The credit period granted by the Group to its customers is generally around 30 to 120 days. Retail sales are primarily settled by cash or credit cards upon deliveries. The ageing analysis of trade receivables is as follows:

| | Group | |
|---|---|---|
| | **2006** **HK$'000** | 2005 HK$'000 |
| 0 to 90 days | **362,088** | 325,526 |
| 91 to 180 days | **39,518** | 58,391 |
| Over 180 days | **1,661** | 4,874 |
| | **403,267** | 388,791 |

There is no concentration of credit risk with respect to trade receivables as the Group has a large number of customers.

The carrying amounts of trade receivables approximate their fair values as at 31 March 2006.

The Group has written back provision for bad and doubtful debts of approximately HK$1,282,000 (additional provision for bad and doubtful debts in 2005: HK$77,000) for the impairment of its trade receivables for the year ended 31 March 2006. The reversal has been included in administrative expenses in the income statement.

## 21 DUE FROM RELATED PARTIES

Details of the amounts due from related parties were:

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'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:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Quality Prince Ltd. | **6** | 6 |
| S.W. Lam, Inc. | **432** | 432 |

The balances with related parties are unsecured, non-interest bearing and repayable on demand.

## 22 INVESTMENTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted investments, at market value | **–** | 9,258 |

Pursuant to the adoption of HKASs 32 and 39, the Group has redesignated the "Investments" as "other financial assets at fair value through profit or loss" effective from 1 April 2005.

As at 31 March 2005, investments of approximately HK$9,094,000 were pledged as collateral for the Group's banking facilities (Note 36).

## 23 DERIVATIVE FINANCIAL INSTRUMENTS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Interest-rate swap | **725** | – |

The notional principal amount of the outstanding interest-rate swap contract at 31 March 2006 was HK$232,500,000 (2005: HK$300,000,000). At 31 March 2006, the fixed interest rate was 4.21% per annum and the floating rate was Hong Kong Interbank Offered Rate. At 1 April 2005, the fair value of interest rate swap liability was HK$1,154,000.

## 24 OTHER FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | Group | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Unlisted investments in Hong Kong | **3,726** | – |

As at 31 March 2006, other financial assets at fair value through profit or loss of approximately HK$3,557,000 were pledged as collateral for the Group's banking facilities (Note 36).

## 25 PLEDGED BANK DEPOSITS/CASH AND CASH EQUIVALENTS

| | Group | | Company | |
|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Pledged bank deposits | **41,489** | 35,818 | **–** | – |
| Cash at bank and in hand | **187,986** | 86,366 | **81** | 193 |
| | **229,475** | 122,184 | **81** | 193 |

As at 31 March 2006, bank deposits of HK$41,489,000 (2005: HK$35,818,000) were pledged as collateral for the Group's banking facilities (Note 36).

The effective interest rate on pledged bank deposits was 2.21% per annum (2005: 0.98% per annum), these deposits have an average maturity of 23 days (2005: 40 days).

As at 31 March 2006, pledged bank deposits and cash and cash equivalents were denominated in the following currencies:

| | **2006** | 2005 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong Dollar | **221,333** | 116,571 |
| Chinese Renminbi | **1,651** | 3,583 |
| U.S. Dollar | **6,222** | 1,835 |
| Others | **269** | 195 |
| | **229,475** | 122,184 |

As at 31 March 2006, bank deposits of approximately HK$1,651,000 (2005: HK$3,583,000) 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.

## 26 SHARE CAPITAL

| | 2006 | | 2005 | |
|---|---|---|---|---|
| | **Number of shares '000** | **Nominal value HK$'000** | Number of shares '000 | Nominal value HK$'000 |
| Authorised ordinary shares: | | | | |
| Beginning and 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** | 560,794 | 56,079 |
| Issue of shares | | | | |
| – rights issue (i) | **186,931** | **18,693** | – | – |
| – scrip dividend (ii) | **11,035** | **1,104** | – | – |
| – exercise of employee share options (iii) | **4,306** | **431** | – | – |
| End of year | **763,066** | **76,307** | 560,794 | 56,079 |

Notes:

**(i) Rights issue**

In April 2005, the Company issued 186,931,333 ordinary shares of HK$0.10 each at a subscription price of HK$1.01 per share in connection with the rights issue. The net proceeds were approximately HK$186,005,000.

**(ii) Scrip dividend**

With respect to the final dividend and special dividend for the year ended 31 March 2005, the Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary share in lieu of a cash dividend. Details of ordinary shares of HK$0.1 each issued by the Company in lieu of cash dividends are as follows:

| | **Number of share issued** | **Nominal value of share issued** HK$'000 | **Premium on shares issued** HK$'000 | **Total scrip dividend** HK$'000 |
|---|---|---|---|---|
| 2004/2005 final dividend and special dividend | 11,034,484 | 1,104 | 11,718 | 12,822 |

## 26 SHARE CAPITAL (continued)

**(iii) Share option**

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.

The Old Scheme was adopted on 27 February 1999 and was terminated on 28 August 2002. The New Scheme was effective on 28 August 2002. At 31 March 2006, there were 47,754,808 options and 9,805,522 options outstanding which are exercisable subject to the terms of the Old Scheme and the New Scheme, respectively.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | **2006** | | 2005 | |
|---|---|---|---|---|
| | **Weighted average exercise price HK$** | **Number of share options** | Weighted average exercise price HK$ | Number of share options |
| Beginning of year | **1.25** | **61,313,200** | 1.25 | 61,313,200 |
| Rights issue adjustment | **–** | **553,012** | – | – |
| Exercised | **0.86** | **(4,305,882)** | – | – |
| End of year | **1.27** | **57,560,330** | 1.25 | 61,313,200 |

All options were exercisable as at 31 March 2006.

Share options outstanding at 31 March 2006 have the following expiry dates and exercise prices:

| | | **Share options** | |
|---|---|---|---|
| **Year of expiry** | **Exercise price** HK$ | **2006 Number of share options** | 2005 Number of share options |
| 2009 | 1.08 | **25,725,000** | 25,480,000 |
| 2009 | 1.48 | **22,029,808** | 21,820,000 |
| 2012 | 0.85 | **3,424,753** | 7,693,200 |
| 2012 | 1.56 | **6,380,769** | 6,320,000 |
| | | **57,560,330** | 61,313,200 |

## 27 RESERVES

### (a) Group

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Capital reserve HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2004, as previously reported | 99,368 | 7,016 | 72,409 | 494,385 | 673,178 |
| Effect of adoption of HKAS 17 | – | – | – | 603 | 603 |
| At 1 April 2004, as restated | 99,368 | 7,016 | 72,409 | 494,988 | 673,781 |
| Profit attributable to the Company's equity holders | – | – | – | 106,822 | 106,822 |
| Share issue expense | (557) | – | – | – | (557) |
| 2003/2004 final dividend | – | – | – | (3,365) | (3,365) |
| At 31 March 2005, as restated | 98,811 | 7,016 | 72,409 | 598,445 | 776,681 |
| Effect of adoption of HKASs 32 and 39 | – | – | – | (1,441) | (1,441) |
| At 1 April 2005 | 98,811 | 7,016 | 72,409 | 597,004 | 775,240 |
| Profit attributable to Company's equity holders | – | – | – | 129,607 | 129,607 |
| Issue of shares | | | | | |
| – rights issue (Note 26(i)) | 170,108 | – | – | – | 170,108 |
| – in lieu of dividend (Note 26(ii)) | 11,718 | – | – | – | 11,718 |
| – exercise of employee share options (Note 26(iii)) | 3,267 | – | – | – | 3,267 |
| Share issue expenses | (2,239) | – | – | – | (2,239) |
| 2004/2005 final dividend | – | – | – | (28,558) | (28,558) |
| 2005/2006 interim dividend | – | – | – | (7,631) | (7,631) |
| At 31 March 2006 | 281,665 | 7,016 | 72,409 | 690,422 | 1,051,512 |
| Representing: | | | | | |
| Proposed 2005/2006 final dividend | | | | 22,892 | |
| Others | | | | 667,530 | |
| Retained earnings at 31 March 2006 | | | | 690,422 | |

## 27 RESERVES (continued)

### (b) Company

| | Share premium HK$'000 | Capital redemption reserve HK$'000 | Contributed surplus (ii) HK$'000 | Retained earnings HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 April 2004 | 99,368 | 7,016 | 231,010 | 8,518 | 345,912 |
| Share issue expenses | (557) | – | – | – | (557) |
| Profit for the year | – | – | – | 28,438 | 28,438 |
| 2003/2004 final dividend | – | – | – | (3,365) | (3,365) |
| At 31 March 2005 | 98,811 | 7,016 | 231,010 | 33,591 | 370,428 |
| Issue of shares | | | | | |
| – rights issue (Note 26(i)) | 170,108 | – | – | – | 170,108 |
| – in lieu of dividend (Note 26(ii)) | 11,718 | – | – | – | 11,718 |
| – exercise of employee share options (Note 26 (iii)) | 3,267 | – | – | – | 3,267 |
| Share issue expenses | (2,239) | – | – | – | (2,239) |
| Profit for the year | – | – | – | 28,850 | 28,850 |
| 2004/2005 final dividend | – | – | – | (28,558) | (28,558) |
| 2005/2006 interim dividend | – | – | – | (7,631) | (7,631) |
| At 31 March 2006 | 281,665 | 7,016 | 231,010 | 26,252 | 545,943 |
| Representing: | | | | | |
| Proposed 2005/2006 final dividend | | | | 22,892 | |
| Others | | | | 3,360 | |
| Retained earnings at 31 March 2006 | | | | 26,252 | |

Notes:

(i) Share issue expenses incurred during the years ended 31 March 2006 and 2005 represent the costs incurred relating to a rights issue in April 2005 (Note 26(i)).

(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.

## 28 LONG-TERM BANK BORROWINGS

The long-term bank borrowings are repayable as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Amounts repayable | | |
| – Within one year | **58,667** | 95,301 |
| – In the second year | **219,412** | 199,328 |
| – In the third to fifth years | **285,117** | 75,302 |
| Wholly repayable within five years | **563,196** | 369,931 |
| Not wholly repayable within five years | **–** | 814 |
| | **563,196** | 370,745 |
| Less: amounts repayable within one year included under current liabilities | **(58,667)** | (95,301) |
| | **504,529** | 275,444 |

The effective interest rate of long-term bank borrowings as at the balance sheet date was 3.9% per annum (2005: 2.8% per annum). Details of the Group's banking facilities are set out in Note 36.

The carrying amounts of bank borrowings approximate their fair values as at 31 March 2006.

All long-term bank borrowings are denominated in Hong Kong dollars.

## 29 FINANCE LEASE OBLIGATIONS

The Group's finance lease obligations have maturity dates within five years and are repayable as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Total minimum lease payments under finance leases | | |
| – Within one year | **5,470** | 9,696 |
| – In the second year | **1,499** | 4,495 |
| – In the third to fifth years | **–** | 1,216 |
| | **6,969** | 15,407 |
| Less: future finance charges | **(198)** | (629) |
| | **6,771** | 14,778 |

## 29 FINANCE LEASE OBLIGATIONS (continued)

The present value of finance lease obligations was as follows:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| – Within one year | **5,265** | 9,260 |
| – In the second year | **1,506** | 4,326 |
| – In the third to fifth years | **–** | 1,192 |
| | **6,771** | 14,778 |
| Less: amounts repayable within one year included under current liabilities | **(5,265)** | (9,260) |
| | **1,506** | 5,518 |

The finance lease obligations are denominated in Hong Kong dollars. The carrying amounts of finance lease liabilities approximate their fair values.

As at 31 March 2006, the effective interest rate of the Group's finance lease obligations was 5.8% per annum (2005: 5.6% per annum).

Lease liabilities are effectively secured as the rights to the leased assets revert to the lessors in the event of default. The net book amount of the leased assets is approximately HK$9,080,000 (2005: HK$23,791,000). The finance lease obligations are additionally secured by corporate guarantees provided by the Company of HK$6,420,000 (2005: HK$14,121,000) (Note 35).

## 30 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2005: 17.5%).

Movements of deferred tax liabilities were:

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Beginning of year | **29,366** | 26,105 |
| Deferred taxation recognised in the income statement (Note 11) | **11,181** | 3,261 |
| End of year | **40,547** | 29,366 |

## 30 DEFERRED TAXATION (continued)

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 | |
|---|---|---|
| | **2006** | 2005 |
| | **HK$'000** | HK$'000 |
| Beginning of year | **32,265** | 28,497 |
| Recognised in the income statement | **9,673** | 3,768 |
| End of year | **41,938** | 32,265 |

**Deferred tax assets**

| | Provisions | | Accumulated tax losses | | Total | |
|---|---|---|---|---|---|---|
| | **2006** | 2005 | **2006** | 2005 | **2006** | 2005 |
| | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 | **HK$'000** | HK$'000 |
| Beginning of year | **(1,363)** | (1,411) | **(1,536)** | (981) | **(2,899)** | (2,392) |
| Recognised in the income statement | **(28)** | 48 | **1,536** | (555) | **1,508** | (507) |
| End of year | **(1,391)** | (1,363) | **–** | (1,536) | **(1,391)** | (2,899) |

Deferred income tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of approximately HK$60,240,000 (2005: HK$31,937,000), which are subject to agreement by relevant tax authority, to carry forward against future taxable income with no expiry date.

## 31 TRADE PAYABLES

The ageing analysis of trade payables is as follows:

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| 0 to 90 days | **125,462** | 133,889 |
| 91 to 180 days | **15,824** | 5,013 |
| Over 180 days | **1,695** | 1,156 |
| | **142,981** | 140,058 |

As at 31 March 2006, trade payables of approximately HK$7,413,000 (2005: HK$10,397,000) was subject to interest. The effective interest rate of the interests to suppliers as at the balance sheet date was 3.1% per annum (2005: 3.0% per annum).

## 32 SHORT-TERM BANK BORROWINGS

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Trust receipts bank loans | **126,408** | 269,949 |
| Gold loan | **145,626** | 106,784 |
| Other short-term bank loans | **106,737** | 73,248 |
| | **378,771** | 449,981 |

The effective interest rate of short-term bank borrowings as at the balance sheet date was 6.1% per annum (2005: 3.1% per annum). Refer to Note 36 for details of the Group's banking facilities.

The carrying amounts of bank borrowings approximate their fair values as at 31 March 2006.

All short-term bank borrowings are denominated in Hong Kong dollars except for the gold loan, which is denominated in the weight of gold.

As at 31 March 2006, gold loan with carrying amount of approximately HK$145,626,000 (2005: Nil) are designated as a hedging instrument to hedge the price risk of certain inventories.

## 33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2006<br>HK$'000 | 2005<br>HK$'000 |
|---|---|---|
| Operating profit | **189,164** | 139,453 |
| Interest income | **(1,254)** | (150) |
| Depreciation of property, plant and equipment | **111,923** | 120,863 |
| Amortisation of leasehold land | **139** | 401 |
| Gain on disposal of property, plant and equipment and leasehold land | **(28,249)** | (3,139) |
| Change in fair value of an investment property | **150** | (360) |
| Unrealised loss on unlisted investments | **–** | 156 |
| Change in fair value of other financial assets at fair value through profit or loss | **(309)** | – |
| Loss on disposal of other financial assets at fair value through profit or loss | **401** | – |
| Fair value gain on financial derivatives | **(1,563)** | – |
| Change in fair value of gold loan | **31,842** | 1,130 |
| | **302,244** | 258,354 |
| Increase in inventories | **(126,237)** | (154,670) |
| (Increase)/decrease in trade receivables | **(14,476)** | 4,995 |
| Decrease/(increase) in prepayments, deposits and other receivables | **53,265** | (46,357) |
| Decrease/(increase) in amount due from related parties | **438** | (438) |
| Increase in trade payables | **2,923** | 24,730 |
| Increase in accruals and other payables | **12,068** | 3,546 |
| Net cash generated from operations | **230,225** | 90,160 |

## 33 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) In the cash flow statement, proceeds from sale of property, plant and equipment and leasehold land comprise:

| | **2006 HK$'000** | 2005 HK$'000 |
|---|---|---|
| Net book amount | | |
| – property, plant and equipment | **30,126** | 3,620 |
| – leasehold land | **–** | 8,669 |
| Gain on sale of property, plant and equipment and leasehold land | **28,249** | 3,139 |
| Considerations from sale of property, plant and equipment and leasehold land | **58,375** | 15,428 |
| Representing: | | |
| – Proceeds already received in cash at year end | **46,035** | 15,428 |
| – Amount due from the buyer at year end (included in prepayments, deposits and other receivables) | **12,340** | – |
| | **58,375** | 15,428 |

(c) Major non-cash transactions:

During the year ended 31 March 2006, the Group entered into finance lease arrangements in respect of machinery with a capital value at the inception of the leases of approximately HK$1,957,000 (2005: HK$15,516,000).

## 34 COMMITMENTS

### (a) Capital commitments for capital expenditure

| | **Group** | | **Company** | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Contracted but not provided | | | | |
| – Purchase of property, plant and equipment | **250** | 30,622 | **–** | – |

## 34 COMMITMENTS (continued)

### (b) Operating lease commitments

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

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Amounts payable | | | | |
| – within one year | **50,620** | 34,748 | **–** | – |
| – in the second to fifth years | **75,853** | 73,270 | **–** | – |
| | **126,473** | 108,018 | **–** | – |

### (c) Commitment for trading of gold

As at 31 March 2006, the Group has entered into a contract to purchase gold and the total committed trade amount was approximately HK$58,641,000 (2005: Nil).

## 35 CONTINGENT LIABILITIES

| | Group | | Company | |
|---|---|---|---|---|
| | **2006 HK$'000** | 2005 HK$'000 | **2006 HK$'000** | 2005 HK$'000 |
| Guarantees for banking facilities of the Company's subsidiaries | **–** | – | **957,955** | 830,489 |
| Guarantees for finance lease obligations of the Company's subsidiaries | **–** | – | **6,420** | 14,121 |
| | **–** | – | **964,375** | 844,610 |

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.

## 36 BANKING FACILITIES AND PLEDGE OF ASSETS

As at 31 March 2006, the Group had aggregate banking facilities of approximately HK$1,295,255,000 (2005: HK$1,099,585,000) from various banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately HK$337,299,000 (2005: HK$269,096,000). These facilities were secured by:

(i) mortgages/pledge of the Group's leasehold land, buildings and furniture with an aggregate net book value of approximately HK$82,442,000 (2005: HK$84,790,000) (Notes 15 and 17);

(ii) pledge of the Group's investment property of nil (2005: HK$1,680,000) (Note 16);

(iii) pledges of the Group's investments of approximately HK$3,557,000 (2005: HK$9,094,000) (Notes 22 and 24);

(iv) pledges of the Group's bank deposits of approximately HK$41,489,000 (2005: HK$35,818,000) (Note 25);

(v) certain inventories of the Group were held under trust receipts bank loan arrangements (Note 19);

(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 (2005: HK$78,500,000) (Note 37); and

(viii) guarantees provided by the Company of approximately HK$957,955,000 (2005: HK$830,489,000) (Note 35).

In addition, the Group has agreed with certain banks to comply with certain restrictive financial covenants in respect of the banking facilities granted.

## 37 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties:

### (a) Rental paid to related parties

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Operating lease rentals paid to related parties which are beneficially owned by directors of the Company | **4,608** | 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.

(b) During the year ended 31 March 2005, the Group disposed of leasehold 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.

(c) 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 (2005: HK$78,500,000) (Note 36).

(d) The rights issue undertook by the Company on 25 April 2005 was underwritten by Allglobe Holdings Limited, a company wholly-owned by Dr. Lam Sai Wing (Note 26(i)).

### (e) Key management compensation

| | 2006 HK$'000 | 2005 HK$'000 |
|---|---|---|
| Basic salaries and allowances | **13,943** | 9,739 |
| Contributions to pension scheme | **118** | 115 |
| | **14,061** | 9,854 |