HANG FUNG GOLD TECHNOLOGY LIMITED
(恒豐金業科技有限公司)

Annual Report 2007

Incorporated in Bermuda with limited liability
Stock Code : 870

Dedicated to retail business development in China

Hong Kong

Macau

Eastern China：

Shanghai Hangzhou Suzhou Wuxi Nantong Xuzhou Yancheng Hefei Fuzhou Xiamen Fuyang

Southern China：

Guangzhou Shenzhen Zhuhai Panyu Zengcheng Nanning Liuzhou

Western and Central China：

Chongqing Wuhan Huangshi Shiyan Jingmen Kunming Xian Changsha

Northern China：

Beijing Tianjin Shijiazhuang Handan Zhengzhou Luoyang Pingdingshan Harbin Jinan Qingdao Jining Dongying Linyi Weihai Weifang Laiwu

Contents

Financial Summary

The following is a summary of the consolidated income statements and balance sheets of Hang Fung Gold Technology Limited ("the Company") and its subsidiaries (together "the Group"):

CONSOLIDATED INCOME STATEMENTS

	2007 HK$'000	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Revenue	**3,127,026**	2,880,037	2,566,742	2,067,608	1,700,804
Operating profit	**240,110**	187,910	139,303	84,584	63,530
Profit attributable to equity holders of the Company	**83,739**	129,607	106,822	61,965	83,686
Dividends	**46,363**	30,523	28,558	14,581	–

Financial Summary

CONSOLIDATED BALANCE SHEETS

	2007 **HK$'000**	2006 HK$'000	2005 HK$'000	2004 HK$'000	2003 HK$'000
Property, plant and equipment	**840,110**	727,734	513,052	412,204	378,389
Leasehold land	**5,622**	5,761	5,900	6,039	6,178
Investment property	**–**	–	1,680	1,320	1,220
Current assets	**1,957,345**	1,566,528	1,355,134	1,180,874	937,042
Current liabilities	**(1,035,788)**	(625,622)	(732,678)	(777,190)	(612,882)
Long-term bank borrowings	**(285,117)**	(504,529)	(275,444)	(61,575)	(100,491)
Other non-current liabilities	**(163,141)**	(1,506)	(5,518)	(5,707)	(18,400)
Deferred taxation	**(66,232)**	(40,547)	(29,366)	(26,105)	(20,486)
Net assets	**1,252,799**	1,127,819	832,760	729,860	570,570
Capital and reserves attributable to the Company's equity holders:					
Share capital	**81,826**	76,307	56,079	56,079	46,906
Reserves	**1,170,973**	1,051,512	776,681	673,781	523,664
Total equity	**1,252,799**	1,127,819	832,760	729,860	570,570

Chairman's Statement

Dear Valued Shareholders,

On behalf of the Board of Directors, I am pleased to present the annual report of Hang Fung Gold Technology Limited (the "Company") and its subsidiaries (together "the Group") for the year ended 31 March 2007.

The fiscal year ended 31 March 2007 ("FY2007") witnessed a positive market momentum and marked another successful year of the Group's business development. Group operating profit rose by 27.8% to HK$240,110,000 and turnover increased by 8.6% to HK$3,127,026,000. EBITDA also showed a 11.5% increase to HK$334,547,000. Net profit attributable to shareholders was HK$83,739,000. Stripping out approximately HK$45,943,000 of fair value loss in respect of the derivative liability of convertible bonds, net profit attributable to shareholders would have reached HK$129,682,000. The above growth was due in large measure to our successful expansion of our retail network and satisfactory retail sales growth.

Dr. Lam Sai Wing
Chairman

LUXURY SUPERBRANDS

HONG KONG PREMIER BRAND

HKQ-Mark Service Scheme

Hong Kong Q-Mark Product Scheme
T237-SZ T238-SZ
3D-GOLD Pure Gold & K-Gold Collection

IS09001:2000
Cert. No.:0089-2002

Given these satisfactory results and an encouraging market outlook, the Board of Directors proposed a final dividend of HK4.0 cents per share, making the total dividend of HK5.5 cents per share for FY2007, representing a payout ratio of approximately 36%, based on net profit attributable to shareholders before convertible bonds revaluation. This represents a healthy increase as compared with the payout ratio of 24% in the last fiscal year. The Board anticipated that it will maintain its dividend policy at a minimum of 35% of distributable profits in the coming financial years.

During the fiscal year under review, the Group strengthened its foothold in the Hong Kong and Mainland retail markets through aggressive network expansion, brand building and marketing efforts.

In Hong Kong, improved local consumer spending and the enormous spending power from the rising number of Mainland tourists under the "Individual Visit Scheme" are behind the strengths of the local retailing scene. In FY2007, the Group opened additional 7 3D-GOLD retail outlets in Hong Kong at high traffic locations targeting especially Mainland tourists.

In China, rapid economic growth and rising household spending are driving the expansion of the retail sector at an unprecedented rate. This favorable market environment continued to fuel our business growth in China. During the fiscal year, the Group strengthened its penetration in first- and second-tier cities with the opening of both self-owned and franchising stores. As of March 2007, the Group has over 100 3D-GOLD shops (including self-owned and franchised stores) in China with particularly strong presence in Guangzhou, Beijing and Shanghai.

The Group has also taken efforts to boost its tourism business. We officially opened "the Swisshorn Gold Palace", the largest gold attraction of its kind on 23 September 2006. This new addition to our other gold exhibits have attracted more group tour visits and further distinguished the Group in its offer of stunning attractions and as part of our commitment to support the tourism industry of Hong Kong.

Our dedication to innovative design and superior quality has also borne fruit as the Group has been authorised to be the designer, manufacturer, distributor and retailer of jewellery in commemoration of the Beijing 2008 Olympic Games. This includes the production and design of a series of products, including the Olympic Fuwa (福娃). This development is a testament to the Group's outstanding design and manufacturing and takes out business reach to an international scale.

Chairman's Statement

Business Outlook

We affirm our positive outlook of the future especially our jewellery retailing business. We see very significant further potential in China's retail market for the Group. The appetite for quality jewellery products amongst consumers shows no sign to abate. This strong momentum is augmented by immense new opportunities created by the 2008 Beijing Olympics and the 2009 East Asian Games.

Going forward, to better capture the market potential as a result of this trend, the Group will pursue an aggressive expansion strategy to build a strong and extensive retail network in both Mainland China and Hong Kong.

In China, we aim to further consolidate our retail network and optimise brand visibility by expanding our retail network horizontally in Mainland China with a target to expand our network to a total of 300 outlets by the year 2008. Apart from opening more self-owned stores in first and second tier cities, the Group will also enhance its presence in second tier cities through franchising arrangement. There has been strong investment intention with the growing affluence and the Group is confident that its comprehensive franchising scheme will be a platform for those with entrepreneurial spirit to start their own businesses. The Group will also look into raising its customer service to enhance customer satisfaction and loyalty. Efforts will be taken to enhance sales and operational efficiency in each store.

In Hong Kong, the Group is witnessing an increasing number of Mainland tourists visiting Hong Kong individually instead of joining tours. While strategically opening new stores in a prudent manner in tourist shopping destinations, the Group is realigning its tourism business. The Group plans to implement entrance fee charges to its tourist exhibition halls, making ticketing sales the key future source of income for its tourism business.

The Group will steadfastly pursue its leading edge with its vertically integrated business chain covering design, OEM/ODM manufacturing, distribution and export as well as brand retailing. I am confident that we will be at the forefront in capturing the immense business opportunities in Hong Kong and China as well as the worldwide development opportunities of our wholesale and export business.

Leveraging on our profound manufacturing capabilities, expanding distribution channels, exquisite jewellery designs and extensive product range, we will continue to strengthen our market penetration through aggressive marketing initiatives with a view to cement "3D-GOLD" as the premium jewellery brand in both the Hong Kong and Mainland markets.

I would like to close by expressing my gratitude to our valuable shareholders for their continued support and to our fellow directors and staff for their efforts and dedication in bringing further success in the years to come. We look forward with the same confidence to the remainder of 2007.

Lam Sai Wing
Chairman
Hong Kong, 18 July 2007

Our commitment to Service Excellence is Solid as Gold

一諾千金
無微不至
以客為尊

Ms. Kelly Chen, Spokesperson of 3D-GOLD Jewellery, presented Chuk Kam Jewellery Design Competition 2006 Open Group - Hippie Rhapsody Winning Design : "The Tree of Fire"

金至尊珠寶代言人陳慧琳小姐演繹
足金首飾設計比賽 **2006** 公開組 –
嬉皮舞曲得獎設計：「火樹」

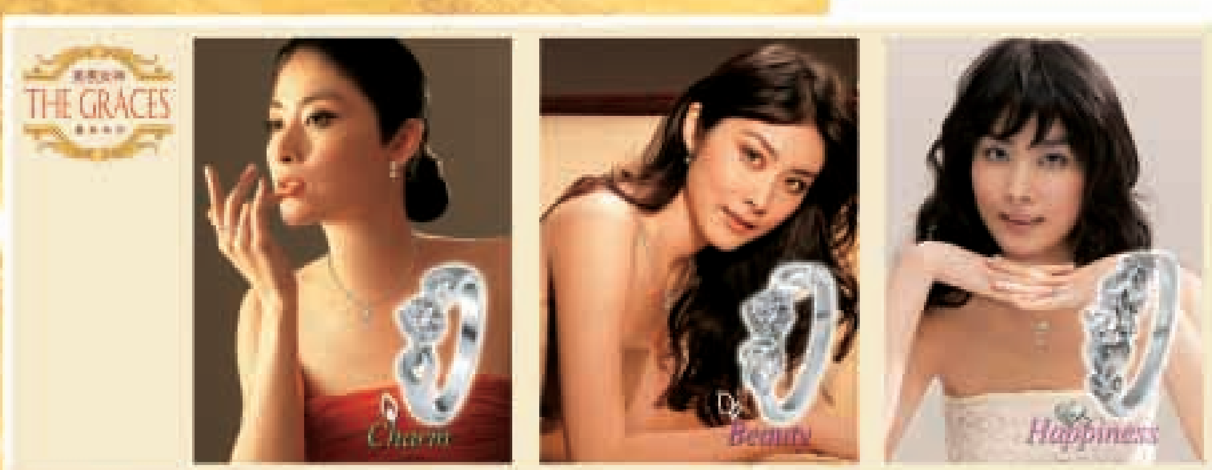
1

2

3

4

1. “Les fleurs” Diamond Collection
「花魅」鑽飾系列
2. “Shàn” Diamond Collection
「美人扇」鑽飾系列
3. “Loving You” Diamond Collection
「得天獨厚」鑽飾系列
4. “Be Special Be You” Diamond Collection
「氣質女人」鑽飾系列
5. “The Graces” Diamond Collection
「美惠女神」鑽飾系列



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Management Discussion and Analysis

RESULTS

For the year ended 31 March 2007, the Group continued to record satisfactory business growth. The Group's consolidated turnover amounted to HK$3,127,026,000 representing an increase of 8.6% from HK$2,880,037,000 in the previous fiscal year. Operating profit reached HK$240,110,000, representing a 27.8% increase over the corresponding period last year. Profit attributable to shareholders was HK$83,739,000. Excluding approximately HK$45,943,000 in fair value losses on derivative liability of convertible bonds, net profit attributable to shareholders would have reached HK$129,682,000 (2006: HK$129,607,000).

Mainland China and Hong Kong remained the major contributors to the significant growth in turnover, accounting for 93.1% (2006: 92.2%) of total sales. The Group's overall gross profit margin was 31.5% (2006: 33.0%) for the year.

During the year, the Group has continued to maintain investment in brand promotion as in previous years. Through tighter control of expenses, the selling and marketing costs decreased to 13.7% (2006: 17.5%) of total turnover. To support its expanding operations, the Group's administrative expenses increased from 9.5% of total turnover in 2006 to 10.2% in the year. Interest expense increased from HK$51,148,000 last year to HK$68,910,000, mainly caused by the increase in interest rates and the issue of convertible bonds during the year.

An improved local Hong Kong economy, continual relaxation of the Mainland's Individual Visit Scheme, growing consumer spending in the PRC and the appreciation of Renminbi (RMB) have fueled the Group's sales growth. In particular, with the continued development of the PRC economy and household income growth in both first and second tier cities, the management believes that this macro environment presents enormous growth potential and opportunities for the Group.

DIVIDENDS

The Board of Directors proposed to pay a final dividend of HK4.0 cents (2006: HK3.0 cents) per share for the year ended 31 March 2007. The final dividend, if approved by shareholders at the forthcoming annual general meeting, will be payable on or about 5 October 2007 to shareholders whose names appear on the Register of Members of the Company on 31 August 2007. Together with an interim dividend of HK1.5 cents (2006: HK1.0 cent) per share, the total dividend for the year amounted to HK5.5 cents (2006: 4.0 cents) per share.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 28 August 2007 to 31 August 2007, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and determine the identity of members who are entitled to attend and vote at the forthcoming annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 27 August 2007.

Management Discussion and Analysis

BUSINESS REVIEW

Brand Retail Business

To build business scale and foster competitive strengths, the Group strategically opened new retail outlets in the Mainland and Hong Kong markets during the year to increase the entire "3D-GOLD" network coverage.

Seven new self-owned "3D-GOLD" stores in Hong Kong are located in 'destination retail' and well-populated residential districts including Mongkok, Tseung Kwan O, Causeway Bay, Yuen Long, Tuen Mun, and Sheung Shui. Stronger local presence not only successfully captured business from Mainland tourists, it also helped boost brand awareness as well as a more efficient deployment of staff and resources. Despite the upswing of leasing expenses in the local market, the Group's rental expenses have been able to maintain at a stable level.

3D-GOLD Jewellery opened its new retail shop in Causeway Bay

In the PRC, the main strategic thrust is to establish a stronger foothold in the first and second tier cities through new store openings. As at 31 March 2007, the Group operated over 100 retail stores (including self-owned and franchised stores). The Group strategically opened its retail outlets at desirable locations within premier shopping malls which attracted quality clientele and higher spending. Spanning over 40 cities nationwide, average size of its store is around 500 square feet.


3D-GOLD Jewellery Shop in Tseung Kwan O

During the year, the Group has actively engaged in franchising arrangement with new store openings in both first and second tier cities. With an increasingly well recognised brand and an attractive franchising scheme, the Group has successfully captured the growing entrepreneurial fervor in the PRC. The cooperation with these local franchisees has proven to be very effective in fast expanding the network coverage with relatively lower capital expenditure. With a unified store design and layout, the Group also stringently implemented brand and store management guidelines and standardised pricing strategy to ensure consistency and quality sales services. The Group will continue to pursue this win-win arrangement with its network expansion initiatives.


3D-GOLD Jewellery Shop in MOI Huaqiang Bei Store of Shenzhen

During the year under review, the Group sought to strengthen customer service and enhance store operating efficiency through the implementation of various management initiatives such as integrated sales control procedures, seamless ERP system on inventory status and a comprehensive point-of-sales system support. These initiatives have helped stores to reach its full sales potential as well as meaningful improvement in revenue efficiency and operating quality.

The Group's tourism business continued to attract a healthy flow of both group tour and individual tourists especially from the Mainland. On 23 September 2006, the Group officially opened "the Swisshorn Gold Palace", the largest gold attraction of its kind in a bid to capture more visitors. Total investment of the Palace was around HK$575 million with over 4.5 tons of gold displayed in a 7,000 square feet hall.

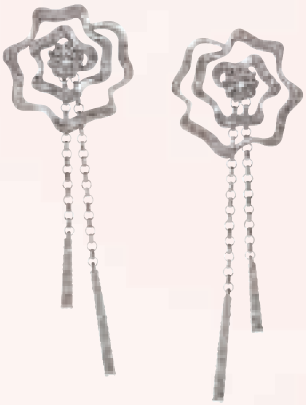
Swisshorn Gold Palace

In order to realise the value of the Company's investment, the Group disposed of the Gold Carriage for a consideration of HK$75 million during the year and recognised a gain of approximately HK$26.5 million. The net proceeds were used for general working capital purposes, including expansion on retail network. To maintain continual display of the Gold Carriage at the Group's retail outlet, the Group has leased back the Gold Carriage for three years.

Ms. Kelly Chen is re-appointed as the spokesperson of 3D-GOLD Jewellery

Aggressive Marketing Efforts

The Group's aggressive brand building efforts including the re-appointment of Miss Kelly Chen as the spokesperson of "3D-GOLD" achieved extensive market awareness. The tactics have successfully established the premium positioning of "3D-GOLD", gaining market share over the competition. Marketing activities undertaken during the reporting period included the new TV commercial launch, joint promotions with credit cards, the "3D-GOLD Cup" title sponsorship of the Hong Kong Jockey Club's Chinese New Year Race Day, and "Celebration of the Chinese New Year with Forever Rich Piggy Family". These activities are conducive to boost overall sales. The Group stepped up its marketing efforts in the Mainland to build momentum and awareness to tie in with the strategy of aggressive network expansion. These activities included the jewellery catwalk show of the "3D-GOLD" • Kelly Chen Because of you Shanghai Night and the official crown sponsorship of 2006 Miss Chinese Cosmos Pageant. Notwithstanding, the Group maintained a tight but healthy selling and marketing expenses which accounted for around 13.7% of the Group's turnover (2006: 17.5%).



"Les fleurs" Diamond Collection, specially designed by Ms. Kelly Chen, spokesperson of 3D-GOLD Jewellery.

Management Discussion and Analysis

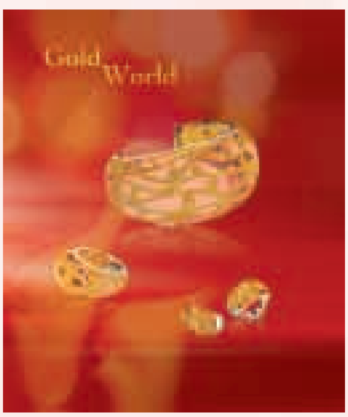
International Reach

A significant milestone during the year was that the Group has been authorised to be the designer, manufacturer, distributor and retailer of a series of jewellery items for the 2008 Beijing Olympics. The new line of products, including the Olympic Fuwa (福娃), is expected to be well received in the market which the Group has realised the business opportunity presented by the 2008 Beijing Olympics. This new development is a manifestation as well as recognition of the Group's excellence in jewellery design and manufacturing.

Beijing 2008 Olympic jewellery collection – Fuwa

Apart from introducing new items to existing product lines, other product categories launched under the "3D-GOLD" brand during the year under review included the "Monroe" Diamond Collection, "The Graces" Diamond Ring Collection, "Loving You" Diamond Collection and "Be Special Be You" Diamond Collection.

Distribution and Export Business



"Gold World" Collection

As the leading jewellery wholesaler and exporter in Hong Kong and China and with an extensive distribution networks reaching US, Europe, SE Asia and China, the Group's distribution and export business recorded satisfactory growth. The Group's production facilities continued to record over 90% utilisation rate to support the extensive product portfolio and requirements from international brand owners. Leveraging the Group's outstanding design capabilities and advanced technological support, the Group has demonstrated its unique edge in managing complicated designs and addressing specific needs of its OEM/ODM clients.

As jewellery designs follow closely the latest market trends, the Group also actively participated in numerous international trade fairs and exhibitions including Bangkok Gems & Jewelry Fair, The JCK Show – Las Vegas, Basel World, Istanbul Show and the Hong Kong International Jewellery Show etc.

Community Relations

Supporting the community is at the core of the Group's corporate philosophy and the way we conduct our business. As a commitment in corporate social responsibility, the Group has actively participated or supported different community and industry activities during the year under review to share the success of the Group with the public.

Community initiatives included sponsorship of the East Asian Games 2009, the 2007 Bun Carnival and the Community Chest's "Hong Kong-Shenzhen Western Corridor Walk for Millions". The Group also sponsored or took part in various trade and industry such as the "Business Design Week" to promote Hong Kong's design profession; the activities organised by the Hong Kong Culture Association to support local cultural development; and the "Young Industrialist Award of Hong Kong" organised by Federation of Hong Kong Industries to recognise local entrepreneurs.

Awards and Achievements

During the year under review, the Group continued to receive leading industry awards in recognition of its continuous efforts in promoting service excellence and industry best practices and its contribution to the industry during the past years.

Hong Kong

- The 7th Hong Kong Jewellery Design Competition 2006 organised by Hong Kong Trade Development Council – Merit Award of Open Group (In a total of 5 designs)
- Hong Kong Q-Mark Service Scheme Certificate awarded to Hang Fung Gold Technology Limited, "3D-GOLD" Jewellery retail chain stores for four consecutive years
- Hong Kong Q-Mark Product Scheme Certificate awarded to "3D-GOLD" and "La Milky Way"
- Quality Tourism Services Scheme Certificate awarded to "3D-GOLD" Jewellery retail chain stores organised by The Hong Kong Tourism Board

China

- The 7th China Golden Awards for Excellence in Public Relations-Silver Award
- The China Most Innovative Enterprise
- The Exemplary Group for the Economic Planning and Development in Contemporary China
- Asia Brand Innovation Award
- Government of PRC First Choice of Purchase Award
- The 4th Hong Kong And Macau Merchants of Integrity Award

Management Discussion and Analysis

Liquidity and Financial Resources

Banking Facilities

As at 31 March 2007, the Group maintained aggregate banking facilities of HK$1,265,133,000 (2006: HK$1,295,255,000), of which HK$186,371,000 (2006: HK$337,299,000) had not been utilised. The Group finances its operations and business development primarily with internally generated cash flow and banking facilities, and the management believes it has sufficient funds to serve these purposes in the foreseeable future. Interest on bank borrowings is charged at commercial lending rates to the Group. Details of the maturity of bank borrowings as at 31 March 2007 are set out in Notes 25 and 30 to the financial statements.

As at 31 March 2007, the Group's gearing ratio (ratio of aggregate bank borrowings less cash and cash equivalents and pledged bank deposits to equity) was 0.75 (2006: 0.63).

Certain assets of the Group had been pledged to banks for these banking facilities. Details are set out in Note 34 to the financial statements.

Convertible Bonds

On 16 November 2006, the Company entered into a Subscription Agreement with Goldman Sachs International in connection with the issue by the Company of Convertible Bonds with an aggregate principal amount of HK$240 million for a term of 5 years due 2011 at a coupon rate of 3% per annum. The payment obligations of the Company under the Convertible Bonds is guaranteed by Hang Fung Jewellery Company Limited, a subsidiary of the Company. The Convertible Bonds will be convertible into shares of the Company at an initial conversion price of HK$1.136 per share, subject to adjustment. The net proceeds of the Convertible Bonds issue after deduction of commission and administrative expenses are approximately HK$229.70 million, of which approximately HK$200 million is to be applied for the repayment of bank borrowings and the balance being approximately HK$29.70 million is to be used to fund the Group's general working capital. The Convertible Bonds issue will improve the liquidity position of the Group as well as potentially enhance the equity base and reduce the financing costs of the Group.

Exchange Rate Exposure

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.

Guarantees

As at 31 March 2007, the Company had given to banks and other financial institutions corporate guarantees in respect of finance lease obligations and banking facilities granted to its subsidiaries, details of which are set out in Note 33 to the financial statements.

Investor Relations

The Group values its relationship with investors. Committed to maintaining close relations with international funds, institutional investors, analysts and securities firms, the Group took the initiative to improve transparency of the different aspects of its operation, and has been receptive to investors' opinions. Our goal is to maintain continuous conversations with investors to enable them to understand the Group's management philosophy and long-term development plans.

During the year, the Group arranged one-on-one meetings and visits for fund managers. The Group believes maintaining an open mind to investors' comments is instrumental to strengthening strong investor relations and the Group will continuously pursue service excellence to investors.

Employees

As at 31 March 2007, the Group had over 2,000 employees. Staff members are rewarded according to industry standards, which will be reviewed annually. Staff remuneration includes a basic salary and bonus. Expansion of business led to an increase in the number of employees, and together with the rising salary level and related employee benefits, the Group's employment costs for the year ended 31 March 2007 increased by 9.2% to HK$151,433,000 (2006: HK$138,684,000). In addition, the Company offers a share option scheme for staff, granting options to employees who have made exceptional contributions to the Group.

BUSINESS OUTLOOK

Looking forward, the management is optimistic about the business environment in both Mainland China and Hong Kong market. The Hong Kong and Macau retailing business has established a good scale and its growth will be further driven by the continued influx of Mainland visitors and an overall improvement in the local economy. The Group will strategically evaluate store opening opportunities taking into account rental and operating impact.

In view of the rising trend of Mainland tourists visiting Hong Kong on an individual basis, the Group is realigning its tourism business strategy by giving more emphasis on the Gold Display exhibition whilst minimising the retail sale of jewellery inside the Tourism Exhibition Hall. The Tourism Exhibition Hall shall be repositioned to be a major attraction in Hong Kong for visitors coming both from tours or Individual Travel Scheme. Entrance fee shall be levied on visitors for touring our famous Gold Bathroom, Gold Palace and other Gold Statues.

In the PRC, the rising household income resulting in much stronger spending power, urbanisation and economic development will pose a positive effect for the Group's business. The Group also sees a shift in consumer preference of spending at branded retail chains which offer better price, extensive choices as well as good shopping experience. In view of this huge market potential, the Group will step up its new store roll out plan to expand both market share and build its own brand, scale of operation and service edge to attain a leading market position. The Group targets to open new self-owned stores in first tier cities while it will adopt the franchising scheme for second tier cities' expansion.

Management Discussion and Analysis

The Group will continue to expand its retail networks in the first and second tier cities in China. Our longer term goal is to expand our chain store network to 300 outlets by the end of 2008. Apart from strengthening presence in existing markets, the Group will look into expansion in Eastern China, Northern China and other second tier and third tier cities.

Apart from store roll out, the Group will continue to enhance its product development and marketing efforts, enrich product portfolios through innovation and creativity, implement stringent cost control and strengthen overall operational efficiency by adopting the ERP and point-of-sale systems.

The Company is confident with its future development and will continue to strengthen its business on the back of its strong professional management team, in-depth market knowledge and the edge in innovative design and product development technology.

Profile in the Centennial event

世紀盛事　彰顯實力


同一个世界 同一个梦想
One World One Dream
Beijing 2008

Profile of Directors and Senior Management

Executive Directors

Dr. Lam Sai Wing, aged 51, is the Chairman of the Company and the founder of the Group. Dr. Lam, with over 28 years of experience in the jewellery industry, is responsible for the overall strategic planning and policy making of the Group. He was awarded the Young Industrialist Award in 1997, Bauhinia Cup Outstanding Entrepreneur Awards in 2002 and received the Medal of Honour (M.H.) by the Government of the Hong Kong Special Administrative Region in 2004.

Dr. Lam is the Vice President of Hong Kong Young Industrialists Council, General Committee Member of Federation of Hong Kong Industries (Chairman of Jewellery Group 11), the Honorary Life President of Hong Kong Gemstone Manufacturers' Association Limited, the Honorary President of The Hong Kong Gold & Sliver Ornaments Workers & Merchants General Union, the Honorary Chairman of Jewelry Industry Chamber of Commerce under Beijing Federation of Industry & Commerce, one of the Committee Members of the People's Political Consultative Conference of China Committee of HuNan, the Vice Chairman of Bauhinia Cup Outstanding Entrepreneurs Association.

Dr. Lam received Doctor of Philosophy in Business Administration from Southern California University For Professional Studies and Honorary Fellow of The Professional Validation Council of Hong Kong Industries in 2002. He holds a Master Degree of Science in Material Engineering of Yanshan University, the Fellowship Awardees of Asian Knowledge Management Association and the Advisor of The Office for Chinese Management Development of City University of Hong Kong. Dr. Lam is also a Part-time Professor in the Department of Public Administration of Tianjin University.

Ms. Chan Yam Fai, Jane, aged 44, is the Deputy Chairman of the Company. She has over 24 years of management and operational experience in the jewellery industry in Hong Kong and Mainland China, and is responsible for the overall management and administration of the Group. She is also actively involved in development of the Group's retail business in Hong Kong, Mainland China and overseas.

Ms. Chan is one of the Committee Members of the People's Political Consultative Conference of China Committee of ShanDong and JiNan. She was appointed the Committee Member of Gems & Jewelry Trade Association of China and Youth Committee Member of All-China Federation of Returned Overseas Chinese. She is also the Executive Committee Member of the Hong Kong Jewelry Manufacturers' Association and Director of the Council of Management of Hong Kong Jewellery & Jade Manufacturers Association.

Ms. Chan was awarded the Fellow of The Professional Validation Council of Hong Kong Industries in 2004. She is the wife of Dr. Lam Sai Wing.

Profile of Directors and Senior Management

Ms. Ng Yee Mei, aged 44, is the Chief Executive Officer of the Group. Ms. Ng joined the Group in 1990 and is responsible for product and market development and the formulation of the sales and marketing strategies of the Group. She has 18 years of marketing and sales experience of which over 17 years has been in the jewellery industry. Ms. Ng holds a Bachelor's degree in Arts from the University of Guelph, Canada. Ms. Ng also holds a Diploma in Gemmology from The Gemmological Association And Gem Testing Laboratory of Great Britain and Diploma in Graduate Diamonds of Gemological Institute of America.

Mr. Yeung Hon Yuen, aged 47, is the Vice President of the Group. Mr. Yeung is responsible for the retailing business with tourism of the Group. Mr. Yeung has over 26 years of experience in jewellery manufacturing and has been responsible for the overall operational management in Hang Fung Jewellery (Shenzhen) Company Limited, the subsidiary of the Group. Mr. Yeung is the Director of Retail Division of the Federation of Hong Kong Watch Trades & Industries Ltd. since the appointment in 2004 and the supervisory committee of The Hong Kong Jewellers' & Goldsmiths' Association Ltd. since the appointment in 2006. Mr. Yeung is the brother-in-law of Dr. Lam Sai Wing.

Mr. Kuang Hao Kun, Giovanni, aged 41, is the Vice President of Corporate Investment Department of the Group. Mr. Kuang joined the Group in 2002 and is responsible for the strategic planning of investment projects and coordinating investors' relation for the Group. Mr. Kuang holds a Bachelor's degree in Economics from the La Trobe University in Victoria, Australia, and he is also an associate member of the CPA Australia. Mr. Kuang has 12 years of experience in Hong Kong's listed companies and the equity capital markets.

Non-executive Director

Mr. Wong Kwong Chi, aged 55, is the non-executive director of the Company. Mr. Wong is the Partner of Asian Global Capital and also sits on the boards of several Hong Kong listed companies. He has extensive experience in the capital investment market. Mr. Wong holds a Bachelor's degree in Science and a Master's degree in Business Administration from the Chinese University of Hong Kong. Mr. Wong served as the Chairman of Hong Kong Venture Capital and Private Equity Association, the Vice Chairman of The Hong Kong Electronic Industries Association, and the Vice President of Hong Kong Auto Parts Industry Association. He is now a Member of Financial Services Advisory Committee of Hong Kong Trade Development Council, Member of Hong Kong Young Industrialists Council and the President of Hong Kong Critical Components Manufacturers Association.

Independent Non-executive Directors

Mr. Lee Kok Keung, aged 61, is an independent non-executive director of the Company. Mr. Lee graduated from the former Hong Kong Baptist College (now reconstituted the Hong Kong Baptist University).

Between May 1979 to 1998, he began his distinguished journalist's career as the Chief Editor of the popular magazine "Wide Angle". Mr. Lee is the Chairman of the Board of Directors of Megateam Media International Limited. He is also the Convenor of Executive Committee of Hong Kong Culture Association Limited.

In March 1993, 1998 and 2003, Mr. Lee was appointed as a member of the Chinese People's Political Consultative Conference. Mr. Lee was also a member of the Selection Committee of the Hong Kong Special Administrative Region ("HKSAR") in November 1996, 2000 and 2006. He has also been elected as a member of the Election Committee of the HKSAR. In addition, Mr. Lee has been awarded the Bronze Bauhinia Star in the HKSAR 2002 Honours List. He has also been awarded Honourable Citizen in Shen Yang, China and Vice President of Henan Overseas Friendship Association.

Mr. Liu Ngai Wing, aged 57, is an independent non-executive director of the Company. Mr. Liu holds a Master Degree of Science in Global Business from the Chinese University of Hong Kong, a Master Degree of Science in Hotel and Tourism Management from the Hong Kong Polytechnic University and a Master Degree in Business Administration from the Open University of Hong Kong. Mr. Liu is an executive director of eSun Holdings Ltd, independent non-executive director of New Smart Energy Group Limited and Daiwa Associate Holdings Ltd. He is an associate member of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Secretaries and Administrators, and is also a fellow member of the Association of Chartered Certified Accountants.

Dr. Lui Sun Wing, aged 56, obtained a PhD in Mechanical Engineering from the Birmingham University of United Kingdom in 1979. He worked for the Hong Kong Productivity Council from 1981 to 2000, and was promoted to branch director in 1992, responsible for overseeing the materials and process branch. Dr. Lui joined The Hong Kong Polytechnic University as a vice president in 2000, and is now responsible for partnership development. Dr. Lui is also the chief executive officer of the Institute for Enterprise of the Hong Kong Polytechnic University, the PolyU Technology and Consultancy Co. Ltd. and the PolyU Enterprises Limited. Dr. Lui is currently a non-executive director of Eco-Tek Holdings Limited and an independent non-executive director of Leeport (Holdings) Limited, EVA Precision Industrial Holdings Limited and Smart Union Group (Holdings) Limited, all of which are listed on The Stock Exchange of Hong Kong Limited.

Mr. Lou Ping Ho, aged 43, has over 17 years of experience in the hospitality industry. Mr. Lou had been a managerial staff member responsible for the cost control and procurement functions in a number of hospitality groups in Hong Kong. Since 1995, Mr. Lou has joined Vocational Training Council as a Lecturer in Hotel, Service and Tourism Studies and acted as a consultant to the government, various hotel and commercial institutions. Mr. Lou is a doctoral candidate of business administration studies and holds a Master Degree of Science in Hotel and Tourism Management. Mr. Lou is also a Certified Hospitality Educator.

Profile of Directors and Senior Management

Senior Management

Mr. Wu Ying Keung, aged 51, is the Financial Controller and Company Secretary of the Group. He is responsible for the overall financial management, accounting and company secretarial functions. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants in United Kingdom, and also an associate member of the Certified General Accountants' Association of Canada. He joined the Group in May 2006 with 29 years of experiences in management, finance, and auditing. Before joining the Group, he has held key finance and management positions in listed companies and multinational corporations in various industries.

Mr. Ho Ching, aged 57, is the Factory Manager of the Group. Mr. Ho joined the Group in 1991 and is responsible for the overall manufacturing operations and logistics of the Group's production facilities. He has over 26 years of experience in production and factory management in the jewellery industry.

Mr. Lam Nai Kam, aged 47, is the Manager of the fine gold division of the Group. Mr. Lam joined the Group in 1990 and is responsible for the sales and marketing of fine gold products of the Group in Hong Kong and South East Asia. He has over 17 years of experience in sales and marketing in the jewellery industry.

Ms. Tsang Yuk Ching, Scara, aged 42, is the Group's Senior Marketing Manager. Ms. Tsang joined the Group in 1997 and is responsible for the Group's marketing of overseas markets. Ms. Tsang has over 17 years of experience in international marketing.

Ms. Chong Shuk Hing, aged 45, is the Administration and Senior Human Resources Manager of the Group. Ms. Chong joined the Group in 1999 and is responsible for the overall operation of administration and human resources management of the Group. Ms. Chong has over 15 years of experience in administrative and human resources management. Ms. Chong holds a Bachelor (Honours) degree in Human Resources Management from the University of Northumbria, United Kingdom.

In Pursuit of Quality and Perfection

追求完美 實至名歸

3D-GOLD Jewellery has been awarded the Hong Kong Q-Mark Service Scheme Certification for four consecutive years and was the first to be awarded the Hong Kong Q-Mark Product Scheme Certification

金至尊珠寶連續四年榮獲香港Q嘜優質服務計劃證書，並成首個珠寶品牌榮獲香港Q嘜優質產品計劃證書

ISO 9001:2000 Certificate
ISO 9001:2000 證書

The 4th Hong Kong And Macau Merchants of Integrity Award
第4届「港澳優質誠信商號」

The 7th China Golden Awards for Excellence in Public Relations-Silver Award
第七屆中國最佳公共關係案例大賽 - 品牌管理類銀獎

Asia Brand Innovation Award
亞州品牌創新獎

Government of PRC First Choice of Purchase Award
中國政府採購首選品牌

The China Most Innovative Enterprise
中國最具創新力企業

The Exemplary Group for the Economic Planning and Development in Contemporary China
中國當代經濟建設模範集體

Corporate Governance Report

INTRODUCTION

The Group is committed to achieving high standards of corporate governance which is crucial to the development of the Group and safeguards the interests of the Company's shareholders. To accomplish this, the Group has adopted practices which meet the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). During the year, the Company has complied with the Code except the code provision A.4.1.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

BOARD OF DIRECTORS

The Board of Directors comprises five executive directors, including the chairman and the chief executive officer, one non-executive director and four independent non-executive directors. The Board of Directors is principally accountable to the shareholders and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the senior management.

The Board of Directors meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board of Directors has delegated certain authorities to the senior management for the day-to-day management of the Group's operation.

BOARD OF DIRECTORS (continued)

The attendance of directors at the four full board meetings held in the year is as follows:

	Attendance
Executive directors	
Dr. Lam Sai Wing *(Chairman)*	4
Ms. Chan Yam Fai, Jane *(Deputy chairman)*	1
Ms. Ng Yee Mei	3
Mr. Yeung Hon Yuen	3
Mr. Kuang Hao Kun, Giovanni	3
Non-executive director	
Mr. Wong Kwong Chi	2
Independent non-executive directors	
Mr. Lee Kok Keung	4
Mr. Liu Ngai Wing	2
Dr. Lui Sun Wing	3
Mr. Lou Ping Ho	4

The three executive directors, namely, Ms. Ng Yee Mei, Mr. Yeung Hon Yuen and Mr. Kuang Hao Kun, Giovanni, were appointed on 1 June 2006.

Ms. Chan Yam Fai, Jane is the wife of Dr. Lam Sai Wing. Mr. Yeung Hon Yuen is the brother-in-law of Dr. Lam Sai Wing.

In annual general meeting, the chairman of the Board and the chairman of each committee are required to attend and answer questions from shareholders in respect of the matters that they are responsible and accountable for.

The Company has received the annual confirmation of independence from each of the independent non-executive directors as required under Rule 3.13 of the Listing Rules. The Company considered all independent non-executive directors to be independent.

ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of chairman and chief executive officer should be separated and should not be performed by the same individual. The chairman of the Board is Dr. Lam Sai Wing and the chief executive officer is Ms. Ng Yee Mei. The division of responsibilities between the chairman and chief executive officer should be clearly established. The duties of the chairman include leading the Board to make key decisions as well as strategic planning and development of the Company. The chief executive officer is mainly responsible to carry out the decisions of the Board and the day-to-day management of the Group.

TERMS OF DIRECTORS

Under the code provision A.4.1, non-executive directors should be appointed for a specific term. Currently, non-executive directors are not appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the Company's Bye-Laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

AUDIT COMMITTEE

The Company has established an Audit Committee with written terms of reference in line with the code provisions set out in the Code.

The Audit Committee meets at least twice a year for reviewing the reporting of annual and interim results and other information to the shareholders, and the effectiveness and objectivity of the audit process. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors.

The Audit Committee consists of one non-executive director and four independent non-executive directors. The Audit Committee is chaired by Mr. Liu Ngai Wing.

During the year, the Audit Committee reviewed with the management for the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the audited financial statements and unaudited interim financial statements.

AUDIT COMMITTEE (continued)

The members and attendance of the three meetings of the Audit Committee in the year are as follows:

	Attendance
Members of Audit Committee	
Mr. Wong Kwong Chi	2
Mr. Lee Kok Keung	3
Mr. Liu Ngai Wing	2
Dr. Lui Sun Wing	2
Mr. Lou Ping Ho	3

REMUNERATION COMMITTEE

To comply with the Code, a Remuneration Committee was established on 12 May 2005 with specific written terms of reference which deal clearly with its authority and duties. The Remuneration Committee will meet at least once a year to consider and recommend to the Board the Group's remuneration policy and structure and to review and determine the remuneration packages of the executive directors and senior management. The directors are remunerated with reference to their respective duties and responsibilities with the Company, the Company's performance and market benchmarks.

The Remuneration Committee comprises of one executive director, Mr. Lam Sai Wing, one non-executive director, Mr. Wong Kwong Chi and four independent non-executive directors, Mr. Lee Kok Keung, Mr. Liu Ngai Wing, Dr. Lui Sun Wing and Mr. Lou Ping Ho. The Remuneration Committee is chaired by Mr. Lee Kok Keung.

Details of emoluments of the directors for the year ended 31 March 2007 are set out in Note 9 to the financial statements.

NOMINATION OF DIRECTORS

According to the Bye-laws of the Company, the Board of Directors has the power from time to time and at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board of Directors. The nomination should be taken into consideration of the nominee's qualification, ability and potential contributions to the Company. On 1 June 2006, Ms. Ng Yee Mei, Mr. Yeung Hon Yuen and Mr. Kuang Hao Kun, Giovanni were appointed as executive directors.

ACCOUNTABILITY AND AUDIT

Financial reporting

The directors are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and of the results and cash flows for that period. In preparing the financial statements for the year ended 31 March 2007, the directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group, for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The reporting responsibilities of the Company's auditors are detailed in the Independent Auditor's Report on pages 44 and 45.

Fees charged by the Company's auditors

For the year ended 31 March 2007, the fees charged by the Company's auditors in respect of audit and non-audit services amounted to approximately HK$2,530,000 and HK$169,050 respectively.

Internal control

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control procedures which include the policies, procedures, monitoring and communication activities and standard of behaviour established for safeguarding the interests of the shareholders of the Company.

Directors' Report

The directors have the pleasure of presenting the annual report together with the audited financial statements of Hang Fung Gold Technology Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31 March 2007.

PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The Company is an investment holding company. Its subsidiaries are principally engaged in the design, manufacture (through subsidiaries and subcontractors) and selling of a broad range of gold products, other precious metal products and jewellery products.

An analysis of the Group's performance for the year by geographical segments is set out in Note 5 to the financial statements.

CUSTOMERS AND SUPPLIERS

For the year ended 31 March 2007, the five largest customers of the Group accounted for approximately 8.8% (2006: 7.3%) of the Group's total sales and the five largest suppliers of the Group accounted for approximately 73.6% (2006: 73.5%) of the Group's total purchases. The largest customer of the Group accounted for approximately 1.8% (2006: 1.6%) of the Group's total sales while the largest supplier accounted for approximately 36.3% (2006: 39.6%) of the Group's total purchases. None of the directors, their associates, or any shareholder (which, to the knowledge of the directors, owns more than 5% of the Company's share capital) had a beneficial interest in the Group's five largest customers or five largest suppliers.

RESULTS AND APPROPRIATIONS

Details of the Group's results for the year ended 31 March 2007 are set out in the consolidated income statement on page 46. The directors declared a final dividend of HK4.0 cents per share. Together with an interim dividend of HK1.5 cents per share, total dividends for the year ended 31 March 2007 amounted to HK$46,363,000.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 23 to the financial statements.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 24 to the financial statements.

As at 31 March 2007, the Company had reserves of approximately HK$268,782,000 (2006: HK$257,262,000) available for distribution to shareholders.

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK$142,000.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31 March 2007.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws and the laws in Bermuda.

FINANCIAL SUMMARY

A summary of the Group's financial information for the last five financial years is set out on pages 2 and 3.

PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

Details of movements in property, plant and equipment and leasehold land during the year are set out in Notes 15 and 16, respectively, to the financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 17 to the financial statements.

BANK BORROWINGS

Particulars of bank borrowings as at 31 March 2007 are set out in Notes 25, 30 and 34, respectively, to the financial statements.

CONVERTIBLE BONDS

Details of the convertible bonds and the conversion during the year are set out in Note 27 to the financial statements.

PENSION SCHEME

Details of the pension scheme are set out in Note 8 to the financial statements.

EVENTS AFTER THE BALANCE SHEET DATE

Details of the events after the balance sheet date are set out in Note 36 to the financial statements.

CONNECTED TRANSACTIONS

During the year ended 31 March 2007, the Group entered into the following transactions, which constituted connected transactions and continuing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

1. On 30 September 2004, each of Hang Fung Jewellery Company Limited ("Hang Fung") and Kai Hang Jewellery Company Limited ("Kai Hang") entered into a sale and purchase memoranda with Glory Hill Limited ("Glory Hill") and Skyman Limited ("Skyman"), both of which are wholly-owned by Dr. Lam Sai Wing, respectively, pursuant to which Hang Fung and Kai Hang agreed to sell and Glory Hill and Skyman agreed to purchase the properties (the "Disposal") situated at (i) Unit A on Ground Floor and Private Car Parking Space No. 18 on the Basement, Winner Building, Nos. 32, 32A and 34-40 Man Yue Street, Nos. 25-37 Tai Wan Road, Hunghom, Kowloon; and (ii) Units H and K and Flat Roof K on 2nd Floor and Private Car Parking Space Nos. G17, G19 and G21 on Ground Floor, Kaiser Estate Phase II, Nos. 47-53 Man Yue Street, Nos. 20-28 Man Lok Street, Hunghom, Kowloon (the "Properties"). The Group agreed to dispose of the Properties at an aggregate consideration of HK$15 million and, conditional upon completion of the sale and purchase taking place, to lease the Properties back for a period of three years at a total annual rental of HK$1,980,000 (the "Leasing"). As Glory Hill and Skyman are wholly-owned by Dr. Lam Sai Wing, they are connected persons (as defined in the Listing Rules) of the Company. Accordingly, the Disposal and the Leasing constitute to a connected transaction and a continuing connected transaction respectively of the Company under the Listing Rules. Please refer to the announcement of the Company dated 5 October 2004 for details of these transactions.

2. On 1 June 2005, Hang Fung entered into two tenancy agreements with Sky Rich Enterprises Limited ("Sky Rich") to lease the premises located at (i) Units A, B & C on Upper Part of 3rd Floor, Gemstar Tower, No. 23 Man Lok Street, Hunghom, Kowloon, Hong Kong ("Gemstar Premises"); and (ii) Unit G on 1st Floor, Kaiser Estate Phase II, Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street, Hunghom, Kowloon, Hong Kong for a term of 3 years commencing from 1 June 2005 at rentals of HK$900,000 and HK$600,000 respectively per annum. The tenancy agreement of Gemstar Premises was early terminated by both parties with effect from 31 October 2006. The tenancy agreements constitute continuing connected transactions of the Company under the Listing Rules. Please refer to the announcement of the Company dated 3 June 2005 for details of these transactions.

3. On 6 September 2005, (i) Hang Fung entered into a tenancy agreement with Sky Rich to renew the rental of the premises located at Units J, K and L, Ground Floor, Kaiser Estate Phase II, Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street, Hunghom, Kowloon, Hong Kong ("Kaiser Estate Premises") for a term of 3 years commencing from 1 December 2005 to 30 November 2008 at a rental of HK$1,500,000 per annum; and (ii) Hang Fung entered into certain licence agreements with Sky Rich as licensor to renew the right to use part of the external walls of the building of which Kaiser Estate Premises form part for a term of 3 years commencing from 6 September 2005 to 5 September 2008 on a rent-free basis. The tenancy agreement and the licence agreements constitute continuing connected transactions of the Company under the Listing Rules. Please refer to the announcement of the Company dated 12 September 2005 for details of these transactions.

CONNECTED TRANSACTIONS (continued)

4. On 1 November 2006, Hang Fung entered into a tenancy agreement with Sky Rich for the rental of the premises located at Unit A, 1st Floor, Kaiser Estate Phase I, Nos. 37-45 Man Yue Street, Hunghom, Kowloon, Hong Kong for a term of 2 years commencing from 1 November 2006 to 31 October 2008 at a rental of HK$696,000 per annum. The tenancy agreement constitutes continuing connected transactions of the Company under the Listing Rules. Please refer to the announcement of the Company dated 2 November 2006 for details of these transactions.

DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

The directors who held office during the year and up to the date of this report were:

Executive directors

Dr. Lam Sai Wing *(Chairman)*
Ms. Chan Yam Fai, Jane *(Deputy Chairman)*
Ms. Ng Yee Mei (appointed on 1 June 2006)
Mr. Yeung Hon Yuen (appointed on 1 June 2006)
Mr. Kuang Hao Kun, Giovanni (appointed on 1 June 2006)

Non-executive director

Mr. Wong Kwong Chi

Independent non-executive directors

Mr. Lee Kok Keung
Mr. Liu Ngai Wing
Dr. Lui Sun Wing
Mr. Lou Ping Ho

In accordance with the Bye-laws of the Company, Mr. Lam Sai Wing, Mr. Wong Kwong Chi, Mr. Lee Kok Keung and Mr. Lou Ping Ho will retire from office and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

Dr. Lam Sai Wing and Ms. Chan Yam Fai, Jane each entered into a service contract with the Company for a term of two and a half years commencing from 1 October 2004. Other than these service contracts, none of the directors has an unexpired service contract with the Company which is not terminable by the Company within one year without payment of compensation other than statutory compensation.

DIRECTORS' INTERESTS

As at 31 March 2007, the interests or short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such directors and chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(a) Long positions in the Company

	Number of shares				Percentage holding	Number of
	Personal Interest	Family Interest	Corporate Interest	Total Interest	of total interest	share options
Dr. Lam Sai Wing	78,198,112	–	237,865,084 *(Note 1)*	316,063,196	38.63%	3,190,385 *(Note 2)*
Ms. Chan Yam Fai, Jane	–	–	–	–	–	3,190,384 *(Note 2)*
Ms. Ng Yee Mei	2,065	–	–	2,065	0.00%	–

DIRECTORS' INTERESTS (continued)

(b) Long positions in associated corporations

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

Notes:

1. The 237,865,084 shares are owned as to 178,398,813 shares by Quality Prince Limited and 59,466,271 shares by Allglobe Holdings Limited. Quality Prince Limited is a company wholly-owned by S.W. Lam, Inc., a company in which Dr. Lam Sai Wing holds an approximately 82% interest through Good Day Holdings Limited, a company wholly-owned by Dr. Lam Sai Wing. Accordingly, Dr. Lam Sai Wing is deemed to be interested in all shares in the Company held by Quality Prince Limited. Allglobe Holdings Limited is a company wholly-owned by Dr. Lam Sai Wing.

2. The interests of the directors in the share options of the Company are separately disclosed in the section headed "Share Options" below.

3. Class A (non-voting) ordinary shares have no voting rights, are not entitled to dividends unless dividends paid to holders of Class B (voting) ordinary shares exceed HK$900,000,000,000 in each financial year, and are not entitled to distribution of the company's assets unless each Class B (voting) ordinary shareholder has been returned its paid up capital together with a premium of HK$900,000,000,000. The Class B (voting) ordinary shares have voting rights and are entitled to dividends and distribution of the company's assets.

Save as disclosed above, as at 31 March 2007, none of the directors and chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such directors and chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 to the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTIONS

At the annual general meeting of the Company held on 28 August 2002, the shareholders of the Company approved the adoption of a new share option scheme (the "New Scheme") and the termination of the old share option scheme (the "Old Scheme"). Despite the fact that no further options may be granted under the Old Scheme, all outstanding options previously granted continue to be valid and exercisable in accordance with the rules of the Old Scheme, subject to the provisions of the Listing Rules.

a. Old Scheme

The Old Scheme was adopted on 27 February 1999 and was terminated on 28 August 2002. In accordance with the Old Scheme, the directors were entitled to grant options to employees, including executive directors, of the Group, to subscribe for shares in the Company, subject to a maximum of 10% of the issued share capital of the Company from time to time, excluding shares issued pursuant to the scheme. The subscription price was determined based on the higher of the nominal value of a share and 80% of the average of the closing prices of the shares for the five trading days immediately preceding the date of offer of the options. No employee might be granted an option which, if exercised in full, would result in such employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under the Old Scheme. Options granted were exercisable during a period no later than the expiry of 10 years from the adoption date of the Old Scheme.

As at 31 March 2007, the total number of shares which might be issued on the exercise of the outstanding options granted under the Old Scheme was 47,754,808 shares, representing 5.8% of the issued share capital of the Company.

b. New Scheme

The New Scheme was effective on 28 August 2002. The major terms of the scheme are summarised as follows:

(i) Purpose

The purpose of the New Scheme is to provide participants with the opportunity to acquire proprietary interests in the Company and to encourage participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

(ii) Participants

The participants include any directors (including executive, non-executive directors and independent non-executive directors) and employees of the Group and any advisors, consultants, distributors, contractors, suppliers, agents, customers, business partners, joint venture business partners, promoters, service providers of any member of the Group who the directors consider, in their sole discretion, have contributed or will contribute to the Group.

SHARE OPTIONS (continued)

b. New Scheme (continued)

(iii) Maximum number of shares

The maximum number of shares in respect of which options may be granted under the New Scheme shall not exceed 10% of the issued share capital of the Company as at the date of approval of the New Scheme and such limit may be refreshed by shareholders in general meeting. However, the overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes must not exceed 30% of the shares of the Company in issue from time to time. Subsequent to the adoption of the New Scheme, the limit was refreshed at the annual general meetings of the Company held on 26 August 2004, 31 August 2005 and 31 August 2006 respectively. The existing limit of the maximum number of shares in respect of which options may be granted under the New Scheme as refreshed is 76,306,570 shares, being 10% of the shares in issue of the Company on 31 August 2006.

(iv) Maximum entitlement of each participant

The maximum number of shares in respect of which options may be granted to a participant under the New Scheme shall not (when aggregated with any shares subject to any other share option schemes) in any 12-month period exceed 1% of the shares of the Company in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in general meeting of the Company.

(v) Timing for exercise of options

An option may be exercised at any time during a period to be notified by the directors to each grantee at the time of making an offer which shall not expire later than 10 years from the date of grant.

(vi) Vesting period

The directors may, at their discretion, determine a minimum period for which an option must be held before it can be exercised.

(vii) Acceptance of offers

Acceptance of an option shall be made within 28 days from the date of grant together with a non-refundable payment of HK$1.00 from the grantee.

SHARE OPTIONS (continued)

b. New Scheme (continued)

(viii) **Basis for determination of exercise price**

The exercise price of an option must not be less than the highest of:

- the closing price of the shares on the date of grant;
- the average of the closing prices of the shares for the 5 business days immediately preceding the date of grant; and
- the nominal value of a share.

(ix) **Life of the scheme**

The New Scheme shall be valid and effective for a period of 10 years commencing on 28 August 2002, the date of adoption of the scheme.

SHARE OPTIONS (continued)

c. Movements of share options

Movements of share options during the year ended 31 March 2007 are:

				Number of share options			
Participant	Date of grant	Exercise period	Exercise price	Beginning of year '000	Granted during the year '000	Exercised during the year '000	End of year '000
Old Scheme							
Employees	9 June 2000	9 June 2001 to 26 February 2009	HK$1.08	25,725	–	–	25,725
	10 April 2002	10 April 2003 to 26 February 2009	HK$1.48	22,030	–	–	22,030
New Scheme							
Directors							
Dr. Lam Sai Wing	19 December 2003	19 December 2003 to 27 August 2012	HK$1.56	3,190	–	–	3,190
Ms. Chan Yam Fai, Jane	19 December 2003	19 December 2003 to 27 August 2012	HK$1.56	3,190	–	–	3,190
Employees	19 February 2003	31 July 2003 to 27 August 2012	HK$0.85	3,425	–	–	3,425
				57,560	–	–	57,560

Note:

No options were granted, cancelled, exercised or lapsed during the year ended 31 March 2007.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries or holding companies a party to any arrangements to enable any of the Company's directors or members of its management to acquire benefits by means of the acquisition of shares in, or debt securities (including debentures) of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed above, no contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries or holding companies was a party and in which any of the Company's directors or members of its management had a material interests, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 March 2007, the following persons (other than the directors or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares:

Name of shareholders	Nature	Number of shares and underlying shares held	Percentage holding
Good Day Holdings Limited (Note 1)	Long position	178,398,813	21.80%
S.W. Lam, Inc. (Note 1)	Long position	178,398,813	21.80%
Quality Prince Limited (Note 1)	Long position	178,398,813	21.80%
Goldman Sachs International	Long position	121,125,887	14.80%
	Short position	26,408,450	3.23%
Phenomenal Limited	Long position	68,843,250	8.41%
Allglobe Holdings Limited (Note 2)	Long position	59,466,271	7.27%
Evolution Master Fund, Ltd. SPC	Long position	52,816,901	6.45%

Notes:

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

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

Save as disclosed above, the directors or the chief executive of the Company are not aware of any person (other than a director or chief executive of the Company) who, as at 31 March 2007, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of business of the Company were entered into or existed during the year.

DISCLOSURE PURSUANT TO RULES 13.18 & 13.21 OF THE LISTING RULES

Hang Fung Jewellery Company Limited, a wholly-owned subsidiary of the Company, entered into a facility agreement (the "Facility Agreement") dated 16 March 2006 with financial institutions not connected with the directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, in respect of loan facilities of up to a principal amount of HK$500,000,000 for a term of three years. Its obligations under the Facility Agreements are guaranteed by the Company.

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

CODE ON CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has compiled with the code provisions listed in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules throughout the year ended 31 March 2007, with the exception of the following deviations:

Under the code provision A.4.1, non-executive directors should be appointed for a specific term. Currently, non-executive directors are not appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, they are subject to retirement by rotation at each annual general meeting under the Company's Bye-Laws. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the Code.

AUDIT COMMITTEE

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

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the audited financial statements for the year ended 31 March 2007.

REMUNERATION COMMITTEE

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. All directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period covered by the annual report.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors of the Company, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of its directors, as at the date of this annual report, there is sufficient public float, as not less than 25% of the Company's issued shares are held by the public.

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board of Directors,

LAM SAI WING
Chairman

Hong Kong, 18 July 2007

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22nd Floor, Prince's Building
Central, Hong Kong

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HANG FUNG GOLD TECHNOLOGY LIMITED
(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Hang Fung Gold Technology Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 46 to 104, which comprise the consolidated and Company balance sheets as at 31 March 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITOR'S REPORT
TO THE SHAREHOLDERS OF HANG FUNG GOLD TECHNOLOGY LIMITED (continued)
(incorporated in Bermuda with limited liability)

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 March 2007 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 18 July 2007

Consolidated Income Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Revenue	5	**3,127,026**	2,880,037
Cost of sales	6	**(2,141,635)**	(1,929,766)
Gross profit		**985,391**	950,271
Selling and marketing costs	6	**(427,619)**	(505,071)
Administrative expenses	6	**(318,591)**	(273,932)
Other gains, net	7	**929**	16,642
Operating profit		**240,110**	187,910
Interest income		**1,866**	1,254
Interest expense		**(68,910)**	(51,148)
Fair value losses on derivative liability of convertible bonds		**(45,943)**	–
Finance costs, net	10	**(112,987)**	(49,894)
Profit before income tax		**127,123**	138,016
Income tax expense	11	**(43,384)**	(8,409)
Profit attributable to equity holders of the Company	12	**83,739**	129,607
Dividends	13	**46,363**	30,523
Earnings per share for profit attributable to the equity holders of the Company during the year	14		
(expressed in HK cents per share)			
– basic		**10.8**	17.0
– diluted		**10.8**	17.0

The notes on pages 51 to 104 are an integral part of these financial statements.

Balance Sheets

As at 31 March 2007

		Group		Company	
	Note	**2007** **HK$'000**	2006 HK$'000	**2007** **HK$'000**	2006 HK$'000
ASSETS					
Non-current assets					
Property, plant and equipment	15	**840,110**	727,734	**–**	–
Leasehold land	16	**5,622**	5,761	**–**	–
Investments in subsidiaries	17	**–**	–	**158,743**	158,743
		845,732	733,495	**158,743**	158,743
Current assets					
Inventories	18	**1,148,301**	889,265	**–**	–
Trade receivables	19	**454,742**	403,267	**–**	–
Prepayments, deposits and other receivables		**95,936**	37,510	**–**	–
Prepaid income tax		**–**	2,560	**–**	–
Due from subsidiaries	17	**–**	–	**768,071**	463,498
Derivative financial instruments	20	**977**	725	**–**	–
Other financial assets at fair value through profit or loss	21	**3,658**	3,726	**–**	–
Pledged bank deposits	22	**60,628**	41,489	**–**	–
Cash and cash equivalents	22	**193,103**	187,986	**171**	81
		1,957,345	1,566,528	**768,242**	463,579
Total assets		**2,803,077**	2,300,023	**926,985**	622,322
EQUITY					
Capital and reserves attributable to the Company's equity holders					
Share capital	23	**81,826**	76,307	**81,826**	76,307
Reserves	24	**1,170,973**	1,051,512	**625,283**	545,943
Total equity		**1,252,799**	1,127,819	**707,109**	622,250

The notes on pages 51 to 104 are an integral part of these financial statements.

Balance Sheets

As at 31 March 2007

		Group		Company	
	Note	**2007 HK$'000**	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
LIABILITIES					
Non-current liabilities					
Long-term bank borrowings	25	**285,117**	504,529	**–**	–
Finance lease obligations	26	**–**	1,506	**–**	–
Convertible bonds	27	**163,141**	–	**163,141**	–
Deferred taxation	28	**66,232**	40,547	**–**	–
		514,490	546,582	**163,141**	–
Current liabilities					
Trade payables	29	**159,552**	142,981	**–**	–
Accruals and other payables		**43,860**	39,938	**162**	72
Short-term bank borrowings	30	**525,582**	378,771	**–**	–
Long-term bank borrowings, current portion	25	**223,569**	58,667	**–**	–
Finance lease obligations, current portion	26	**1,504**	5,265	**–**	–
Derivative financial instruments	20	**73,968**	–	**56,573**	–
Current income tax liabilities		**7,753**	–	**–**	–
		1,035,788	625,622	**56,735**	72
Total liabilities		**1,550,278**	1,172,204	**219,876**	72
Total equity and liabilities		**2,803,077**	2,300,023	**926,985**	622,322
Net current assets		**921,557**	940,906	**711,507**	463,507
Total assets less current liabilities		**1,767,289**	1,674,401	**870,250**	622,250

Lam Sai Wing
Chairman

Chan Yam Fai, Jane
Deputy Chairman

The notes on pages 51 to 104 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 March 2007

	Share capital HK$'000	Other reserves HK$'000	Retained earnings HK$'000	Total HK$'000
Balance at 1 April 2005	56,079	178,236	597,004	831,319
Profit attributable to the Company's equity holders	–	–	129,607	129,607
Issue of shares				
– rights issue	18,693	170,108	–	188,801
– exercise of share options	431	3,267	–	3,698
– in lieu of dividend	1,104	11,718	–	12,822
Share issue expenses	–	(2,239)	–	(2,239)
Dividends	–	–	(36,189)	(36,189)
Balance at 31 March 2006	76,307	361,090	690,422	1,127,819
Profit attributable to the Company's equity holders	–	–	83,739	83,739
Issue of shares				
– in lieu of dividend	1,118	9,391	–	10,509
Conversion of convertible bonds	4,401	58,429	–	62,830
Currency translation differences	–	2,408	–	2,408
Dividends	–	–	(34,506)	(34,506)
Balance at 31 March 2007	81,826	431,318	739,655	1,252,799

The notes on pages 51 to 104 are an integral part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 March 2007

	Note	2007 HK$'000	2006 HK$'000
Cash flows from operating activities			
Cash generated from operations	31(a)	**54,930**	230,225
Interest paid		**(59,076)**	(49,217)
Hong Kong profits tax paid		**(7,325)**	(12,530)
Mainland China enterprise income tax paid		**(61)**	–
Net cash (used in)/generated from operating activities		**(11,532)**	168,478
Cash flows from investing activities			
Purchase of property, plant and equipment		**(258,389)**	(354,774)
Proceeds from sale of property, plant and equipment	31(b)	**25,074**	46,035
Proceeds from sale of investment property		**–**	1,530
Proceeds from disposal of other financial assets at fair value through profit or loss		**170**	5,440
Interest received		**1,866**	1,254
Net cash used in investing activities		**(231,279)**	(300,515)
Cash flows from financing activities			
Issue of shares			
– rights issue		**–**	188,801
– exercise of employee share options		**–**	3,698
Share issue expenses		**–**	(2,239)
Issue of convertible bonds		**229,700**	–
Proceeds from long-term bank borrowings		**4,158**	220,000
Repayment of long-term bank borrowings		**(61,601)**	(27,549)
Proceeds from short-term bank borrowings		**1,139,113**	1,187,824
Repayment of short-term bank borrowings		**(1,015,039)**	(1,297,876)
Repayment of capital element of finance lease obligations		**(5,267)**	(9,964)
Increase in pledged bank deposits		**(19,139)**	(5,671)
Dividends paid		**(23,997)**	(23,367)
Net cash generated from financing activities		**247,928**	233,657
Increase in cash and cash equivalents		**5,117**	101,620
Cash and cash equivalents at beginning of the year		**187,986**	86,366
Cash and cash equivalents at end of the year		**193,103**	187,986
Analysis of cash and cash equivalents:			
Bank balances and cash		**193,103**	187,986

The notes on pages 51 to 104 are an integral part of these financial statements.

Notes to the Financial Statements

1 General information

Hang Fung Gold Technology Limited (the "Company") and its subsidiaries (together, 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 (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 18 July 2007.

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.

2.1 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 financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its 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.

(a) Amendments and interpretations to published standards effective in current year and are relevant to the Group's operations

The following amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 and are relevant to the Group's operations:

- Amendment to HKAS 39 and HKFRS 4, Amendment "Financial Guarantee Contracts" (effective for annual periods beginning on or after 1 January 2006). This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognised at their fair value, and subsequently measured at the higher of (i) the unamortised balance of the related fees received and deferred, and (ii) the expenditure required to settle the commitment at the balance sheet date. The adoption of this amendment does not have a significant impact on these consolidated financial statements.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(a) **Amendments and interpretations to published standards effective in current year and are relevant to the Group's operations** (continued)

- HK(IFRIC)-Int 4 "Determining Whether an Arrangement Contains a Lease" (effective for annual periods beginning on or after 1 January 2006). It requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (i) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (ii) the arrangement conveys a right to use the asset. The adoption of this interpretation does not have a significant impact on these consolidated financial statements.

- HKAS 21 Amendment "Net Investment in a Foreign Operation" (effective for annual periods beginning on or after 1 January 2006). This amendment permits inter-company loans denominated in any currency to be part of a net investment in a foreign operation, and therefore any relating exchange difference to be treated as equity in the consolidated financial statements. Previously such loans had to be denominated in the functional currency of one of the parties to the transaction. The adoption of this amendment does not have a significant impact on these consolidated financial statements.

(b) **New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group**

The following are the new standards and interpretations to existing standards that have been published and are mandatory for accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HKFRS 7 "Financial Instruments: Disclosures" (effective for annual periods beginning on or after 1 January 2007), HKAS 1 "Amendments to capital disclosures" (effective for annual periods beginning on or after 1 January 2007). HKFRS 7 introduces new disclosures relating to financial instruments. The Group has assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will adopt HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 April 2007.

- HKFRS 8 "Operating Segments" (effective for accounting periods beginning on or after 1 January 2009). HKFRS 8 supersedes HKAS 14, "Segment Reporting", which requires segments to be reported based on the Group's internal reporting pattern as they represent components of the Group regularly reviewed by management. Management considers the adoption of HKFRS 8 will have no significant impact on the segment disclosures of the Group. The Group will apply HKFRS 8 from 1 April 2009.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(b) New standards and interpretations to existing standards that are not yet effective and have not been early adopted by the Group (continued)

- HK(IFRIC)-Int 8 "Scope of HKFRS 2" (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments – where the identifiable consideration received is less than the fair value of the equity instruments issued – to establish whether or not they fall within the scope of HKFRS 2. The Group will apply HK(IFRIC)-Int 8 from 1 April 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 9 "Reassessment of Embedded Derivatives" (effective for annual periods beginning on or after 1 June 2006). Management believes that this interpretation should not have significant impact on the Group's accounting policies as the Group has already assessed whether embedded derivatives should be separated using principles consistent with HK(IFRIC)-Int 9. The Group will apply HK(IFRIC)-Int 9 from 1 April 2007.

- HK(IFRIC)-Int 10 "Interim Financial Reporting and Impairment" (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 April 2007, but it is not expected to have any significant impact on the Group's consolidated financial statements.

- HK(IFRIC)-Int 11 "HKFRS 2 – Group and Treasury Share Transactions" (effective for annual periods beginning on or after 1 March 2007). This interpretation addresses how certain share-based payment arrangements between group companies should be accounted for in the financial statements. The Group will apply HK(IFRIC)-Int 11 from 1 April 2007 but it is not expected to have any significant impact on the Group's consolidated financial statements.

(c) Interpretations to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretation to existing standard has been published that is mandatory for the accounting period beginning on or after 1 January 2008 and is not relevant for the Group's operations:

- HK(IFRIC)-Int 12, "Service Concession Arrangements" (effective for annual accounting periods beginning on or after 1 January 2008). This interpretation sets out general principles on recognising and measuring the obligation and related rights in service concession arrangements. The Group has no service concession arrangements and management considers the interpretation is not relevant to the Group.

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

(d) **Standards, amendments and interpretations effective in current year but not relevant to the Group's operations**

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment – Employee Benefits;
- HKAS 39 Amendment – Cash Flow Hedge Accounting of Forecast Intragroup Transactions;
- HKAS 39 Amendment – The Fair Value Option;
- HKFRS 1 Amendment – First-time Adoption of Hong Kong Financial Reporting Standards;
- HK(IFRIC)-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; and
- HK(IFRIC)-Int 7 – Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies.

2.2 Consolidation

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

Subsidiaries

Subsidiaries are all entities (including special purpose 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.

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.

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

Subsidiaries (continued)

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence 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 dividends received and receivable.

2.3 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.

2.4 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.

(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.

2 Summary of significant accounting policies (continued)

2.4 Foreign currency translation (continued)

(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 partially disposed of or 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.

2.5 Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. 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.

2 Summary of significant accounting policies (continued)

2.5 Property, plant and equipment (continued)

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs 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.

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

2.6 Impairment of investments in subsidiaries and non-financial assets

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

2.7 Financial assets

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.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

(b) **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They 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)

2.7 Financial assets (continued)

Regular purchases and sales of financial assets 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. Financial assets 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 established 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.

2.8 Derivative financial instruments and hedging activities

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:

(a) hedges of the fair value of recognised liabilities (fair value hedge); or
(b) hedges of a particular risk associated with a recognised liability or a highly probable forecast transaction (cash flow hedge).

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.

2 Summary of significant accounting policies (continued)

2.8 Derivative financial instruments and hedging activities (continued)

(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 Group applies only fair value hedge accounting for hedging fixed interest risk on borrowings. 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 affects profit or loss (for example, 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'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. The gain or loss relating to the ineffective portion is recognised in the income statement within 'other gains, net'. 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. The deferred amounts are ultimately recognised in cost of inventories sold in case of inventory.

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 within 'other gains, net'.

2 Summary of significant accounting policies (continued)

2.8 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 and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within 'other gains, net'.

2.9 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 overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 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 as 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 carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within general and administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance for trade receivables. Subsequent recoveries of amounts previously written off are credited against general and administrative expenses in the income statement.

2.11 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.

2.12 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.

2.13 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Summary of significant accounting policies (continued)

2.14 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.

2.15 Convertible bonds

Convertible bonds with settlement options are classified as financial liabilities instead of equity. Embedded derivatives of the convertible bonds are carried at fair value as derivative liability and the changes in the fair value are recognised in the income statement. The liability component of convertible bonds is the balance after deducting the initial fair value of the derivative liability of convertible bonds, which is subsequently carried at amortised cost until extinguished on conversion or redemption.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the income statement.

2.16 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 is not accounted for if it 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.

2 Summary of significant accounting policies (continued)

2.17 Employee benefits

(a) 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.

(b) 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.

(c) 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 vest. At each balance sheet date, the entity revises its estimates of the number of options that are expected to vest. 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.

2.18 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and 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.

2 Summary of significant accounting policies (continued)

2.18 Provisions (continued)

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.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) **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.

(b) **Rental income**

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

(c) **Service income**

Service income is recognised when the respective services are rendered.

(d) **Interest income**

Interest income is recognised on a time-proportion basis using the effective interest method.

2.20 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.

2 Summary of significant accounting policies (continued)

2.20 Leases (as the lessee) (continued)

(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 commencement 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 other short-term and other long term payables. The interest element of the finance cost is charged to 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.

2.21 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

3.1 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.

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(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 and liability component of convertible bonds. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings and liability component of convertible bonds at fixed rates expose the Group to fair value interest-rate risk. Details of the Group's borrowings and convertible bonds have been disclosed in Notes 25, 26, 27 and 30.

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.

3.2 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 Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the balance sheet date.

The estimate of the fair value of the conversion option of the convertible bonds, that is separated from the host debt contract and accounted for as a derivative liability, is determined by using valuation techniques. The Group selects an appropriate valuation method and makes assumptions with reference to market conditions existing at each balance sheet date. Please refer to Note 27 for details.

The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of 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 and judgements 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 and residual values of property, plant and equipment

The Group's management determines the estimated useful lives and residual values and consequently 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.

(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) Fair value of convertible option

The embedded conversion option has been separated from the host debt contract and accounted for as a derivative liability carried at fair value through profit or loss. The fair value of this conversion option which is not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select an appropriate valuation method and makes assumptions that are mainly based on market conditions existing at each balance sheet date. The valuation model requires the input of subjective assumptions, including volatility of share price, stock closing price, dividend yield, risk free rate, and expected option life. Changes in subjective input assumptions can materially affect the fair value estimate.

4 Critical accounting estimates and judgements (continued)

(e) Income taxes

The Group is subject to income taxes in Mainland China, Hong Kong and Macau. 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

	2007 HK$'000	2006 HK$'000
Sales of goods	**3,127,026**	2,880,037

(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:

	2007 HK$'000	2006 HK$'000
Revenue(i)		
Hong Kong/Mainland China	**2,910,816**	2,656,314
South-East Asia	**67,362**	103,375
The United States of America	**125,007**	107,712
Europe	**23,583**	12,028
Others	**258**	608
	3,127,026	2,880,037
Segment results		
Hong Kong/Mainland China	**214,612**	162,956
South-East Asia	**3,055**	5,564
The United States of America	**17,049**	16,418
Europe	**5,384**	2,939
Others	**10**	33
	240,110	187,910

Note:

(i) Revenue 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 Expenses by nature

	2007 HK$'000	2006 HK$'000
Cost of inventories sold	**2,058,543**	1,828,001
Employee benefit expense (including directors' emoluments) (Note 8)	**151,433**	138,684
Advertising and promotion costs	**38,901**	40,016
Operating lease rentals	**58,390**	42,621
Depreciation of property, plant and equipment		
– owned assets	**92,737**	107,245
– assets held under finance lease obligations	**1,561**	4,678
Amortisation of leasehold land	**139**	139
Auditors' remuneration	**2,639**	1,910

7 Other gains, net

	2007 HK$'000	2006 HK$'000
Rental income	**–**	12
Service income	**2,169**	–
Net gains on sale of property, plant and equipment	**23,003**	28,249
Change in fair value of investment property	**–**	(150)
Change in fair values on other financial assets at fair value through profit or loss	**101**	309
Change in fair value of gold loan	**(15,537)**	(31,842)
Gains/(losses) on disposal of other financial assets at fair value through profit or loss	**1**	(401)
Gains on derivative financial instruments	**4,804**	10,477
Fair value (losses)/gains on derivative financial instruments	**(17,143)**	1,563
Net exchange gains	**2,861**	8,425
Others	**670**	–
	929	16,642

8 Employee benefit expense

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

	2007 HK$'000	2006 HK$'000
Salaries, wages, commission and allowances	**146,167**	133,701
Pension costs – contributions to defined contribution plans	**5,266**	4,983
	151,433	138,684

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 2007, the amount of the Group's employer contributions to the pension schemes were approximately HK$5,266,000 (2006: HK$4,983,000).

9 Directors' and senior management's emoluments

(a) Directors' emoluments

The remuneration of every director for the year ended 31 March 2007 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	–	6,657	2,900	12	9,569
Ms. Chan Yam Fai, Jane	–	376	31	12	419
Mr. Kuang Hao Kun Giovanni (i)	–	387	39	10	436
Ms. Ng Yee Mei (i)	–	541	55	10	606
Mr. Yeung Hon Yuen (i)	–	425	43	10	478
Non-executive director					
Mr. Wong Kwong Chi	100	–	–	–	100
Independent non-executive directors					
Mr. Lee Kok Keung	100	–	–	–	100
Mr. Liu Ngai Wing	100	–	–	–	100
Dr. Lui Sun Wing	100	–	–	–	100
Mr. Lou Ping Ho	100	–	–	–	100
	500	8,386	3,068	54	12,008

9 Directors' and senior management's emoluments (continued)

(a) Directors' emoluments (continued)

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

Name of director	Fee	Salaries, wages, commission and allowances	Discretionary bonus	Employer's contribution to pension scheme	Total
	HK$'000	HK$'000	HK$'000	HK$'000	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	90	–	–	–	90
Mr. Lou Ping Ho	100	–	–	–	100
	390	7,002	2,900	24	10,316

Note:

(i) Mr. Kuang Hao Kun Giovanni, Ms. Ng Yee Mei and Mr. Yeung Hon Yuen were appointed on 1 June 2006.

During the year ended 31 March 2007, Ms. Chan Yam Fai, Jane waived emoluments of approximately HK$924,000 (2006: HK$904,000), in respect of her entitlement to salaries and allowances according to service contract. No incentive payment for joining the Group or compensation for loss of office was paid or payable to any directors during the year (2006: Nil).

9 Directors' and senior management's emoluments (continued)

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2006: one) directors, whose emoluments are reflected in the analysis presented above. The emoluments paid/payable to the remaining two (2006: four) individuals were as follows:

	2007	2006
	HK$'000	HK$'000
Basic salaries and allowances	**1,348**	2,633
Bonus	**77**	226
Contributions to pension scheme	**23**	48
	1,448	2,907

The emoluments fell within the following bands:

	Number of individuals	
	2007	2006
HK$500,001 to HK$1,000,000	**2**	3
HK$1,000,001 to HK$1,500,000	**–**	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 (2006: Nil).

10 Finance costs, net

	2007 HK$'000	2006 HK$'000
Interest expense on		
– bank borrowings wholly repayable within five years	**(53,267)**	(44,375)
– gold loan wholly repayable within five years	**(3,806)**	(1,918)
– convertible bonds (Note 27)	**(6,901)**	–
– trade payables to suppliers	**(4,590)**	(4,227)
– finance lease obligations	**(346)**	(628)
	(68,910)	(51,148)
Fair value losses on derivative liability of convertible bonds (Note 27)	**(45,943)**	–
Interest income on bank deposits	**1,866**	1,254
Net finance costs	**(112,987)**	(49,894)

11 Income tax expense

	2007 HK$'000	2006 HK$'000
Current income tax		
– Hong Kong profits tax	**10,279**	3,310
– Mainland China enterprise income tax	**61**	–
– Under/(over)-provision in prior years	**7,359**	(82)
– Write-back of over-provision of Mainland China taxes in prior years (v)	**–**	(6,000)
	17,699	(2,772)
Deferred taxation (Note 28)	**25,685**	11,181
	43,384	8,409

Notes:

(i) **Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit arising in or derived from Hong Kong.

11 Income tax expense (continued)

Notes: (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 2007 (2006: 15%). Hang Fung Jewellery (Shenzhen) Co., Ltd. was established in May 1998 and it has assessable profit subject to such tax during the year (2006: Nil). Shenzhen Kai Hang Jewellery Co., Ltd. was established in September 2004 and had no assessable profit subject to such tax during the year (2006: Nil). 3D-Gold Enterprise Development (Shenzhen) Company Limited was established in June 2006 and had no assessable profit subject to such tax during the year.

(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.

(vi) During the year, the Hong Kong Inland Revenue Department ("IRD") issued a protective profits tax assessment of approximately HK$17,312,000 relating to the year of assessment 2000/01, that is, for the financial year ended 31 March 2001 against a subsidiary of the Company. The Group lodged objection with the IRD against the protective assessment and is being negotiating with the IRD to resolve the dispute.

The directors of the Company believe that no profits tax is payable by the Group in relation to the protective assessment. The Group has obtained counsel opinion that there are supportive grounds that the tax claimed is not payable. At present, there are uncertainties regarding how the case will be settled. If the dispute is not resolved, this may affect the Group's financial conditions and results of operations.

11 Income tax expense (continued)

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 entities as follows:

	2007 HK$'000	2006 HK$'000
Profit before income tax	**127,123**	138,016
Tax calculated at weighted average tax rate applicable to profits generated in the respective countries/places	**22,193**	24,261
Tax effect of income not subject to taxation	**(3,405)**	(15,855)
Tax effect of expenses not deductible for taxation purposes	**11,061**	1,132
Unrecognised tax losses	**6,285**	4,953
Utilisation of previously unrecognised tax losses	**(109)**	–
Under/(over)-provision in prior years	**7,359**	(82)
Write-back of over-provision of Mainland China taxes in prior years	**–**	(6,000)
Income tax expense	**43,384**	8,409

The weighted average applicable tax rate was 17.5% (2006: 17.6%). The decrease is caused by a change in the profitability of the Group's subsidiaries in the respective countries.

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$46,026,000 (2006: HK$28,850,000) dealt with in the financial statements of the Company.

13 Dividends

	2007 HK$'000	2006 HK$'000
Interim dividend of HK1.5 cents (2006: HK1.0 cent)	**11,614**	7,631
Proposed final dividend of HK4.0 cents (2006: HK3.0 cents) per share	**34,749**	22,892
	46,363	30,523

The dividends paid during the year ended 31 March 2007 and 2006 were HK$34,506,000 (HK4.5 cents per share) and HK$36,189,000 (HK4.8 cents per share) respectively. A final dividend in respect of the year ended 31 March 2007 of HK4.0 cents per share, which will be satisfied by cash, amounting to a total dividend of HK$34,749,000, is to be proposed at the upcoming Annual General Meeting. Such dividend represents HK$32,730,000 for the 818,259,800 shares issued and outstanding as at 31 March 2007 and the additional amount of approximately HK$2,019,000 for the 44,014,083 shares issued in April 2007 and June 2007 upon conversion of convertible bonds and the 6,453,599 shares issued in July 2007 under the Company's employee share options scheme as disclosed in Note 36. The proposed dividend has not been dealt with as a dividend payable as at 31 March 2007 but has been dealt with as an appropriation of retained earnings for the year ended 31 March 2007.

14 Earnings per share

(a) 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.

	2007	2006
Profit attributable to equity holders of the Company (HK thousands dollar)	**83,739**	129,607
Weighted average number of ordinary shares in issue (thousands)	**772,497**	761,986
Basic earnings per share (HK cents per share)	**10.8**	17.0

14 Earnings per share (continued)

(b) 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 two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares, and the net profit is adjusted to eliminate the after-tax effects of interest expense and change in fair value on derivative liability. For the share options, calculation is made in order 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.

	2007	2006
Profit attributable to equity holders of the Company (HK thousands dollar)	83,739	129,607
Weighted average number of ordinary shares in issue (thousands)	772,497	761,986
Adjustments for		
– share options (thousands)	674	1,168
Weighted average number of ordinary shares for diluted earnings per share (thousands)	773,171	763,154
Diluted earnings per share (HK cents per share)	10.8	17.0

Note: As the diluted earnings per share amount for the year ended 31 March 2007 is increased when taking convertible bonds into account, the convertible bonds had an anti-dilutive effect on the basic earnings per share. Therefore, the convertible bonds were ignored in the calculation of diluted earnings per share.

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 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
Year ended 31 March 2006					
Opening net book amount	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
Year ended 31 March 2007					
Opening net book amount	**1,409**	**645,117**	**79,771**	**1,437**	**727,734**
Additions	**–**	**257,313**	**667**	**409**	**258,389**
Depreciation for the year	**(96)**	**(42,807)**	**(50,820)**	**(575)**	**(94,298)**
Disposals	**–**	**(52,067)**	**–**	**–**	**(52,067)**
Exchange differences	**–**	**116**	**236**	**–**	**352**
Closing net book amount	**1,313**	**807,672**	**29,854**	**1,271**	**840,110**
At 31 March 2007					
Cost	**1,910**	**995,897**	**586,210**	**4,171**	**1,588,188**
Accumulated depreciation	**(597)**	**(188,225)**	**(556,356)**	**(2,900)**	**(748,078)**
Net book amount	**1,313**	**807,672**	**29,854**	**1,271**	**840,110**

15 Property, plant and equipment (continued)

(a) Depreciation expense is analysed as follows:

	2007 HK$'000	2006 HK$'000
Cost of sales	48,376	68,766
Administrative expenses	45,922	43,157
	94,298	111,923

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

	2007 HK$'000	2006 HK$'000
Buildings in Hong Kong, located on land with leases of between 10 to 50 years	1,313	1,409

(c) **Pledge of assets**

Buildings and furniture with an aggregate net book value of approximately HK$74,471,000 (2006: HK$76,681,000) are mortgaged/pledged as collateral for the Group's banking facilities (Note 34).

(d) **Finance leases**

Certain machinery, equipment and tools and motor vehicles were purchased under finance leases (Note 26). Details of these assets were as follows:

	2007 HK$'000	2006 HK$'000
Cost	7,807	23,388
Less: accumulated depreciation	(4,620)	(14,308)
Net book amount	3,187	9,080
Depreciation for the year	1,561	4,678

16 Leasehold land

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

	2007 HK$'000	2006 HK$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	**5,622**	5,761

Leasehold land with a carrying amount of HK$5,622,000 (2006: HK$5,761,000) was pledged as collateral for the Group's banking facilities (Note 34).

	2007 HK$'000	2006 HK$'000
Beginning of year	**5,761**	5,900
Amortisation	**(139)**	(139)
End of year	**5,622**	5,761

Amortisation of approximately HK$139,000 (2006: HK$139,000) has been charged in administrative expenses.

17 Investments in and due from subsidiaries

(a) Investments in subsidiaries

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

	2007 HK$'000	2006 HK$'000
Unlisted shares, at cost	**158,743**	158,743

17 Investments in and due from subsidiaries (continued)

(a) Investments in subsidiaries (continued)

Details of the principal subsidiaries as at 31 March 2007 are as follows:

Name	Place of incorporation/ operations	Issued and fully paid capital	Percentage of equity interest held (i)	Principal activities
3D-Gold Enterprise Development (Shenzhen) Company Limited (iii)	Mainland China	US$9,000,000	100	Retailing of gold products, other precious metal products and jewellery products
Best Excelsior Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Selling of souvenirs
Expo Global Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Retailing of gold products, other precious metal products and jewellery products
Forever Rich Media Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Advertising and promotion agent of the Group
Geneva International Jewellery & Watch Limited	Hong Kong	100 ordinary shares of HK$1 each	100	Retailing of watches
Gold Ocean Jewellery Company Limited	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) 4 ordinary shares of HK$1 each (ii)	–	Manufacture and selling of gold products, other precious metal products and jewellery products
		Class B (voting) 2 ordinary shares of HK$1 each	100	

17 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
Hang Fung Development International Company Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Retailing of gold products, other precious metal products and jewellery products
Hang Fung Jewellery (International) Company Limited	Hong Kong	2 ordinary shares of HK$1 each	100	Retailing of gold products, other precious metal products and jewellery products
Hang Fung Jewellery (Shenzhen) Co., Ltd. (iii)	Mainland China	HK$25,000,000	100	Manufacture of gold products, other precious metal products and jewellery products
Kai Hang Jewellery Company Limited	Hong Kong	Class A (non-voting) 10,002 ordinary shares of HK$1 each (ii)	–	Property holding and selling of gold products, other precious metal products and jewellery products
		Class B (voting) 2 ordinary shares of HK$1 each	100	
Macadam Profits Limited	British Virgin Islands/ Hong Kong	2 ordinary shares of US$1 each	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

17 Investments in and due from subsidiaries (continued)

(a) Investments in subsidiaries (continued)

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. 3D-Gold Enterprise Development (Shenzhen) Company Limited is a foreign invested commercial enterprise established in Mainland China to be operated for 30 years up to 2036.

None of the subsidiaries had any loan capital in issue at any time during the year ended 31 March 2007 (2006: Nil).

(b) Due from subsidiaries

The amounts due from subsidiaries are unsecured, non-interest bearing and repayable on demand.

18 Inventories

	2007 HK$'000	2006 HK$'000
Raw materials	150,422	191,856
Work-in-progress	309,413	232,510
Finished goods	688,466	464,899
	1,148,301	889,265

The Group has provided an inventory provision of approximately HK$5,400,000 (2006: HK$1,600,000) for the year ended 31 March 2007. Such provision has been included in cost of sales in the income statement.

Certain inventories were held under trust receipts bank loan arrangements (Note 34).

19 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:

	2007 HK$'000	2006 HK$'000
0 to 90 days	**392,863**	362,088
91 to 180 days	**60,178**	39,518
Over 180 days	**1,701**	1,661
	454,742	403,267

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 2007.

The Group has written back provision for bad and doubtful debts of approximately HK$5,417,000 (2006: HK$1,282,000) for the impairment of its trade receivables for the year ended 31 March 2007. The reversal has been included in administrative expenses in the income statement.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

	2007 HK$'000	2006 HK$'000
Hong Kong Dollar	**407,813**	384,601
United States Dollar	**9,983**	2,175
Chinese Renminbi	**36,946**	16,491
	454,742	403,267

20 Derivative financial instruments

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Assets				
Interest rate swaps (i)	**–**	725	**–**	–
Forward foreign exchange contracts				
– held for trading (ii)	**705**	–	**–**	–
Trading of gold and silver (iii)	**272**	–	**–**	–
	977	725	**–**	–
Liabilities				
Interest rate swaps (i)	**(4,431)**	–	**–**	–
Trading of gold and silver (iii)	**(12,964)**	–	**–**	–
Derivative component of				
convertible bonds (Note 27)	**(56,573)**	–	**(56,573)**	–
	(73,968)	–	**(56,573)**	–

Notes:

(i) **Interest rate swaps**

The notional principal amount of the outstanding interest rate swap contracts at 31 March 2007 was HK$352,500,000 (2006: HK$232,500,000). At 31 March 2007, the fixed interest rate was ranging from 4.21% per annum to 5.1% per annum (2006: 4.21% per annum) and the floating rate was Hong Kong Interbank Offered Rate.

(ii) **Forward foreign exchange contracts**

The notional principal amounts of the outstanding forward foreign exchange contracts at 31 March 2007 are approximately HK$246,860,000 (2006: Nil).

(iii) **Trading of gold and silver**

The notional principal amounts of the outstanding trade amount of gold and silver at 31 March 2007 are approximately HK$270,276,000 (2006: HK$58,641,000).

21 Other financial assets at fair value through profit or loss

	2007	2006
	HK$'000	HK$'000
Unlisted investments in Hong Kong	**3,658**	3,726

As at 31 March 2007, other financial assets at fair value through profit or loss of approximately HK$3,658,000 (2006: HK$3,557,000) were pledged as collateral for the Group's banking facilities (Note 34).

22 Pledged bank deposits/cash and cash equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Pledged bank deposits	**60,628**	41,489	**–**	–
Cash at bank and in hand	**193,103**	187,986	**171**	81
	253,731	229,475	**171**	81

As at 31 March 2007, bank deposits of HK$60,628,000 (2006: HK$41,489,000) were pledged as collateral for the Group's banking facilities (Note 34).

The effective interest rate on pledged bank deposits was 4.19% per annum (2006: 2.21% per annum), these deposits have an average maturity of 91 days (2006: 23 days). Cash at bank earned interest at floating rates based on daily bank deposit rates.

As at 31 March 2007, pledged bank deposits and cash and cash equivalents are denominated in the following currencies:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Hong Kong Dollar	**200,478**	221,333	**171**	81
United States Dollar	**28,017**	6,222	**–**	–
Chinese Renminbi	**25,075**	1,651	**–**	–
Other currencies	**161**	269	**–**	–
	253,731	229,475	**171**	81

As at 31 March 2007, bank deposits of approximately HK$25,075,000 (2006: HK$1,651,000) are 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.

As at 31 March 2007, bank deposits of approximately HK$25,067,000 (2006: HK$1,651,000) are placed in Mainland China. The remittance of these funds out of Mainland China is subject to exchange control restrictions imposed by the Chinese Government.

23 Share capital

	2007		2006	
	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	**763,066**	**76,307**	560,794	56,079
Issue of shares				
– rights issue (i)	**–**	**–**	186,931	18,693
– scrip dividend (ii)	**11,180**	**1,118**	11,035	1,104
– exercise of employee share options (iii)	**–**	**–**	4,306	431
– conversion of convertible bonds (iv)	**44,014**	**4,401**	–	–
End of year	**818,260**	**81,826**	763,066	76,307

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 for the year ended 31 March 2005 and 31 March 2006, 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 shares 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
2005/2006 final dividend	11,180,018	1,118	9,391	10,509

23 Share capital (continued)

Notes: **(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 2007, there were 47,754,808 (2006: 47,754,808) options and 9,805,522 (2006: 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:

	2007		2006	
	Weighted average exercise price HK$	**Number of share options**	Weighted average exercise price HK$	Number of share options
Beginning of year	**1.27**	**57,560,330**	1.25	61,313,200
Rights issue adjustment	**–**	**–**	–	553,012
Exercised	**–**	**–**	0.86	(4,305,882)
End of year	**1.27**	**57,560,330**	1.27	57,560,330

All options were exercisable as at 31 March 2007.

23 Share capital (continued)

Notes: **(continued)**

(iii) Share option (continued)

Share options outstanding at 31 March 2007 have the following expiry dates and exercise prices:

		Share options	
Year of expiry	**Exercise price**	**2007**	2006
		Number of	Number of
	HK$	**share options**	share options
2009	1.08	**25,725,000**	25,725,000
2009	1.48	**22,029,808**	22,029,808
2012	0.85	**3,424,753**	3,424,753
2012	1.56	**6,380,769**	6,380,769
		57,560,330	57,560,330

In July 2007, certain options were exercised to subscribe for 6,453,599 shares of the Company for an aggregate amount of approximately HK$6,182,000.

(iv) Conversion of convertible bonds

As detailed in Note 27, the Company issued 3% coupon convertible bonds with an aggregate principal amount of HK$240 million. On 27 February 2007, holders of the convertible bonds with face value of HK$50 million exercised their option to convert the bonds into shares of the Company by subscribing for 44,014,083 new shares of the Company at HK$1.136 each.

The shares issued arising from (i) to (iv) above rank pari passu with the existing shares.

24 Reserves

(a) Group

	Share premium HK$'000	Capital redemption reserve HK$'000	Capital reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
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 23(i))	170,108	–	–	–	–	170,108
– in lieu of dividend (Note 23(ii))	11,718	–	–	–	–	11,718
– exercise of employee						
share options (Note 23(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
Profit attributable to						
Company's equity holders	–	–	–	–	83,739	83,739
Issue of shares						
– in lieu of dividend (Note 23(ii))	9,391	–	–	–	–	9,391
– conversion of convertible						
bonds (Note 27)	58,429	–	–	–	–	58,429
Currency translation differences	–	–	–	2,408	–	2,408
2005/2006 final dividend	–	–	–	–	(22,892)	(22,892)
2006/2007 interim dividend	–	–	–	–	(11,614)	(11,614)
At 31 March 2007	349,485	7,016	72,409	2,408	739,655	1,170,973
Representing:						
Proposed 2006/2007						
final dividend					34,749	
Others					704,906	
Retained earnings at						
31 March 2007					739,655	

24 Reserves (continued)

(b) Company

	Share premium HK$'000	Capital redemption reserve HK$'000	Contributed surplus (i) HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 April 2005	98,811	7,016	231,010	33,591	370,428
Issue of shares					
– rights issue (Note 23(i))	170,108	–	–	–	170,108
– in lieu of dividend (Note 23(ii))	11,718	–	–	–	11,718
– exercise of employee share options (Note 23(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
Issue of shares					
– in lieu of dividend (Note 23(ii))	9,391	–	–	–	9,391
– conversion of convertible bonds (Note 27)	58,429	–	–	–	58,429
Profit for the year	–	–	–	46,026	46,026
2005/2006 final dividend	–	–	–	(22,892)	(22,892)
2006/2007 interim dividend	–	–	–	(11,614)	(11,614)
At 31 March 2007	349,485	7,016	231,010	37,772	625,283
Representing:					
Proposed 2006/2007 final dividend				34,749	
Others				3,023	
Retained earnings at 31 March 2007				37,772	

Note:

(i) 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.

25 Long-term bank borrowings

The long-term bank borrowings are repayable as follows:

	2007 HK$'000	2006 HK$'000
Amounts repayable		
– Within one year	223,569	58,667
– In the second year	282,907	219,412
– In the third to fifth years	2,210	285,117
Wholly repayable within five years	508,686	563,196
Less: amounts repayable within one year included under current liabilities	(223,569)	(58,667)
	285,117	504,529

The effective interest rate of long-term bank borrowings as at the balance sheet date was 5.5% per annum (2006: 3.9% per annum). Details of the Group's banking facilities are set out in Note 34.

The carrying amounts of bank borrowings approximate their fair values as at 31 March 2007.

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

26 Finance lease obligations

The present value of finance lease obligations was as follows:

	2007 HK$'000	2006 HK$'000
– Within one year	1,504	5,265
– In the second year	–	1,506
	1,504	6,771
Less: amounts repayable within one year included under current liabilities	(1,504)	(5,265)
	–	1,506

26 Finance lease obligations (continued)

The Group's finance lease obligations are repayable as follows:

	2007 HK$'000	2006 HK$'000
Total minimum lease payments under finance leases		
– Within one year	**1,535**	5,470
– In the second year	**–**	1,499
	1,535	6,969
Less: future finance charges	**(31)**	(198)
	1,504	6,771

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 2007, the effective interest rate of the Group's finance lease obligations was 6.6% per annum (2006: 5.8% 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$3,187,000 (2006: HK$9,080,000). The finance lease obligations are additionally secured by corporate guarantees provided by the Company of HK$1,365,000 (2006: HK$6,420,000) (Note 33).

27 Convertible bonds

On 22 November 2006, the Company issued 3% coupon convertible bonds of HK$240,000,000 at par. Each bond will, at the option of the holder, be convertible on and after 4 December 2006 up to 11 November 2011 into fully paid ordinary shares with a par value of HK$0.10 each of the Company at an initial conversion price of HK$1.136 per share. Unless previously redeemed, converted or purchased and cancelled, the convertible bonds will be redeemed at 117.2% of the principal amount with accrued interest on 22 November 2011.

In lieu of delivery of some or all of the shares required to be delivered upon the exercise of a conversion right, the Company may elect to make a cash settlement payment in respect of all or any portion of a holder's bonds deposited for conversion.

The cash settlement amount is determined as the product of (i) the number of shares otherwise deliverable upon exercise of the conversion right in respect of the bonds to which the conversion notice applies, and in respect of which the Company has elected the cash settlement option and (ii) the arithmetic average of the volume average price of the Company's shares on The Stock Exchange of Hong Kong Limited for each day during the 14 trading days immediately after the cash settlement notice date.

The initial carrying amount of the liability component of convertible bonds is the amount after deducting the fair value of embedded derivatives. The liability component is subsequently carried at amortised cost.

27 Convertible bonds (continued)

The fair value of the derivative liability of the convertible bonds is calculated using the Binomial model with the major inputs as follows:

	22 November 2006	27 February 2007	31 March 2007
Stock price	1.05	1.65	1.46
Exercise price	1.136	1.136	1.136
Volatility	30%	30%	30%
Dividend yield	3.5%	3.5%	3.5%
Risk free rate	3.8%	4.0%	4.0%

As the Binomial model requires the input of highly subjective assumptions, including the volatility of share price, change in subjective input assumptions can materially affect the fair value estimate.

During the year ended 31 March 2007, the share price of the Company rose significantly, the fair value of derivative liability of the convertible bonds increased accordingly, resulting in a fair value loss of approximately HK$45,943,000, which was recognised in the income statement.

The movements in convertible bonds during the year are analysed as follows:

	Group and Company				
	2007				2006
	Face value HK$'000	Liability component HK$'000	Derivative component HK$'000	Total HK$'000	Total HK$'000
Beginning of year	–	–	–	–	–
Additions	240,000	209,099	30,901	240,000	–
Transaction costs	–	(10,300)	–	(10,300)	–
Conversion into ordinary shares (Note 23)	(50,000)	(42,559)	(20,271)	(62,830)	–
Fair value loss on derivative liability of convertible bonds (Note 10)	–	–	45,943	45,943	–
Interest expense (Note 10)	–	6,901	–	6,901	–
End of year	190,000	163,141	56,573	219,714	–

On 27 February 2007, bonds with face value of HK$50,000,000 were converted into 44,014,083 ordinary shares of the Company at a conversion price of HK$1.136 per share.

Interest expense on the convertible bonds is calculated using the effective interest method by applying the effective interest rate of 10.45% per annum to the liability component. Should the aforesaid embedded derivative not be separated and the entire bonds be considered as the liability component, the effective interest rate would have been 14.0% per annum.

The fair values of liability components of convertible bonds approximate their carrying values.

28 Deferred taxation

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The net amounts are as follows:

	2007 HK$'000	2006 HK$'000
Deferred tax liabilities to be settled after more than 12 months	66,232	40,547

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2006: 17.5%).

The movement on the deferred income tax account is as follows:

	2007 HK$'000	2006 HK$'000
Beginning of year	40,547	29,366
Recognised in the income statement (Note 11)	25,685	11,181
End of year	66,232	40,547

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

Deferred tax assets

	Provisions		Accumulated tax losses		Total	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Beginning of year	(1,391)	(1,363)	–	(1,536)	(1,391)	(2,899)
Recognised in the income statement	(2,336)	(28)	–	1,536	(2,336)	1,508
End of year	(3,727)	(1,391)	–	–	(3,727)	(1,391)

28 Deferred taxation (continued)

Deferred tax liabilities

	Accelerated tax depreciation	
	2007	2006
	HK$'000	HK$'000
Beginning of year	**41,938**	32,265
Recognised in the income statement	**28,021**	9,673
End of year	**69,959**	41,938

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$98,129,000 (2006: HK$60,240,000), which are subject to agreement by relevant tax authority, to carry forward against future taxable income. Unrecognised tax losses of HK$97,266,000 can be carried forward indefinitely, and unrecognised tax losses of HK$663,000 and HK$200,000 will expire in 2009 and 2010 respectively.

New Corporate Income Tax Law

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "new CIT Law"). The new CIT Law increases the corporate income tax rate for foreign invested enterprises from 15% to 25% with effect from 1 January 2008.

The new CIT Law provides that further detailed measures and regulations on the determination of taxable profit, tax incentives and grandfathering provisions will be issued by the State Council in due course. As and when the State Council announces the additional regulations, the Company will assess their impact, if any, and this change in accounting estimate will be accounted for prospectively.

29 Trade payables

The ageing analysis of trade payables is as follows:

	2007 HK$'000	2006 HK$'000
0 to 90 days	**144,892**	125,462
91 to 180 days	**7,960**	15,824
Over 180 days	**6,700**	1,695
	159,552	142,981

As at 31 March 2007, trade payables of approximately HK$22,607,000 (2006: HK$7,413,000) was subject to interest. The effective interest rate of the interests to suppliers as at the balance sheet date was 2.9% per annum (2006: 3.1% per annum).

The carrying amounts of the Group's trade payables are denominated in the following currencies:

	2007 HK$'000	2006 HK$'000
Hong Kong Dollar	**122,057**	121,780
United States Dollar	**33,342**	20,581
Chinese Renminbi	**3,301**	598
Other currencies	**852**	22
	159,552	142,981

The carrying amounts of trade payables approximate their fair values as at 31 March 2007.

30 Short-term bank borrowings

	2007 HK$'000	2006 HK$'000
Trust receipts bank loans	**116,180**	126,408
Gold loan	**246,402**	145,626
Other short-term bank loans	**163,000**	106,737
	525,582	378,771

The effective interest rate of short-term bank borrowings as at the balance sheet date was 6.1% per annum (2006: 6.1% per annum). Refer to Note 34 for details of the Group's banking facilities.

The carrying amounts of bank borrowings approximate their fair values as at 31 March 2007. 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 2007, gold loan with carrying amount of approximately HK$246,402,000 (2006: HK$145,626,000) are designated as a hedging instrument to hedge the price risk of certain inventories.

31 Notes to the consolidated cash flow statement

(a) Cash generated from operations:

	2007 HK$'000	2006 HK$'000
Profit before income tax	127,123	138,016
Adjustment for:		
– Depreciation of property, plant and equipment	94,298	111,923
– Amortisation of leasehold land	139	139
– Gain on sale of property, plant and equipment	(23,003)	(28,249)
– Change in fair value of an investment property	–	150
– Change in fair values on other financial assets at fair value through profit or loss	(101)	(309)
– (Gains)/losses on disposal of other financial assets at fair value through profit or loss	(1)	401
– Fair value losses/(gains) on derivative financial instruments	17,143	(1,563)
– Change in fair value of gold loan	15,537	31,842
– Finance costs, net	112,987	49,894
– Effect of foreign exchange rate changes	2,056	–
	346,178	302,244
Changes in working capital:		
– Increase in inventories	(251,836)	(126,237)
– Increase in trade receivables	(51,475)	(14,476)
– (Increase)/decrease in prepayments, deposits and other receivables	(8,430)	53,265
– Decrease in amount due from related parties	–	438
– Increase in trade payables	16,571	2,923
– Increase in accruals and other payables	3,922	12,068
Cash generated from operations	54,930	230,225

31 Notes to the consolidated cash flow statement (continued)

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

	2007 HK$'000	2006 HK$'000
Net book amount	52,067	30,126
Gain on sale of property, plant and equipment	23,003	28,249
Considerations from sale of property, plant and equipment	75,070	58,375
Representing:		
– Proceeds already received in cash at year end	25,074	46,035
– Amount due from the buyer at year end (included in prepayments, deposits and other receivables)	49,996	12,340
	75,070	58,375

(c) Major non-cash transactions:

(i) During the year ended 31 March 2007, HK$50,000,000 convertible bonds were converted into 44,014,083 ordinary shares of HK$0.10 each of the Company.

(ii) 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.

32 Commitments

(a) Capital commitments

Capital expenditure at the balance sheet date but not yet incurred is as follows:

	Group		Company	
	2007 HK$'000	2006 HK$'000	2007 HK$'000	2006 HK$'000
Contracted but not provided				
– Purchase of property, plant and equipment	–	250	–	–

32 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 April 2010. The total commitments are analysed as follows:

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**59,336**	50,620	**–**	–
In the second to fifth years	**68,739**	75,853	**–**	–
	128,075	126,473	**–**	–

33 Guarantees

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Guarantees for banking facilities of the Company's subsidiaries	**–**	–	**1,078,763**	957,955
Guarantees for finance lease obligations of the Company's subsidiaries	**–**	–	**1,365**	6,420
	–	–	**1,080,128**	964,375

34 Banking facilities and pledge of assets

As at 31 March 2007, the Group had aggregate banking facilities of approximately HK$1,265,133,000 (2006: HK$1,295,255,000) from various banks for overdrafts, loans and trade financing. Unused facilities as at the same date amounted to approximately HK$186,371,000 (2006: HK$337,299,000). 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$80,093,000 (2006: HK$82,442,000) (Notes 15 and 16);

(ii) pledges of the Group's financial assets of approximately HK$3,658,000 (2006: HK$3,557,000) (Note 21);

(iii) pledges of the Group's bank deposits of approximately HK$60,628,000 (2006: HK$41,489,000) (Note 22);

(iv) certain inventories of the Group were held under trust receipts bank loan arrangements (Note 18);

(v) 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 (2006: HK$78,500,000) (Note 35); and

(vi) guarantees provided by the Company of approximately HK$1,078,763,000 (2006: HK$957,955,000) (Note 33).

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

35 Related party transactions

The following transactions were carried out with related parties:

(a) Rental paid to related parties

	2007 HK$'000	2006 HK$'000
Operating lease rentals paid to related parties which are beneficially owned by directors of the Company	**4,705**	4,608

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) 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 (2006: HK$78,500,000) (Note 34).

35 Related party transactions (continued)

(c) Key management compensation

	2007 HK$'000	2006 HK$'000
Basic salaries and allowances	**14,362**	13,943
Contributions to pension scheme	**120**	118
	14,482	14,061

36 Events after the balance sheet date

(a) In April 2007 and June 2007, convertible bonds with face value of HK$10,000,000 and HK$40,000,000 were converted into 8,802,816 shares and 35,211,267 shares of the Company respectively at a conversion price of HK$1.136 per share.

(b) In June 2007 and July 2007, the Group obtained loans with face value of US$5,000,000 (equivalent to HK$39,000,000) and US$5,000,000 (equivalent to HK$39,000,000) respectively in which the amount of interests are indexed to the price of gold. The loans mature in five years.

(c) In July 2007, 6,453,599 shares of the Company were issued for approximately HK$6,182,000 under the Company's employee share options scheme.

Corporate Information

Auditors

PricewaterhouseCoopers
Certified Public Accountants

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited
1 Queen's Road Central
Hong Kong

Bermuda Principal Share Registrar and Transfer Office

Butterfield Corporate Services Limited
Rosebank Centre
11 Bermudiana Road
Pembroke, Bermuda

Hong Kong Branch Share Registrar and Transfer Office

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Stock Code

870

Website

www.hangfung.com

Executive Directors

Lam Sai Wing *(Chairman)*
Chan Yam Fai, Jane *(Deputy Chairman)*
Ng Yee Mei (appointed on 1 June 2006)
Yeung Hon Yuen (appointed on 1 June 2006)
Kuang Hao Kun, Giovanni (appointed on 1 June 2006)

Non-Executive Director

Wong Kwong Chi

Independent Non-Executive Directors

Lee Kok Keung
Liu Ngai Wing
Lui Sun Wing
Lou Ping Ho

Qualified Accountant

Wu Ying Keung

Company Secretary

Wu Ying Keung

Registered Office

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2 Church Street
Hamilton HM 11
Bermuda

Head Office and Principal Place of Business

2nd Floor
Kaiser Estate Phase II
28 Man Lok Street
Hunghom
Kowloon
Hong Kong


Precious Inspiration
别出心裁 瑰麗奪目


1


2


3


4


5


6


7


8

1. Sit on the majestic throne of gold,
   Radiate imperial power of centuries ago.
   金鑾御座 大權在握

2. The golden table nourishes the mind so refined,
   Multi-billion-dollar deals are sealed and signed.
   黃金御案 運籌帷幄

3. In the distinguished chamber in golden robe,
   Gathers the créme de la créme of the globe.
   群英金殿 匯聚人材

4. Dining at the royal table glittering in gold,
   Life lengthens more than a hundredfold.
   御膳金檯 生津延年

5. High up in the chariot of gold we soar,
   To conquer the world with imperial roar.
   黃金馬車 御駕天下

6. Dress up at the golden table is privileged and blessed,
   The lady is so exquisite the world's attention is arrested.
   金粉妝台 巧妝出眾

7. In the gold bath lovers soak in loving pair,
   Devoted to each other in harmony and care.
   鴛鴦金浴 琴瑟和鳴

8. A precious moment in the golden chamber,
   Is worth any treasure ones cares to remember.
   金閨一刻 更勝千金

Ms. Michele Reis, famous movie star, was sitting on the golden robe in "Swisshorn Gold Palace".

影視紅星李嘉欣小姐於
「瑞士號黃金皇宮」內拍照留念。

Swisshorn Gold Palace ("Cherishing Ah-Jiao in a Gold House")
瑞士號黃金皇宮(又名「金屋藏嬌」)