

Corporate Flash

Wed, 21 Feb 2007

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Hang Fung Gold: Hidden value to be unleashed

Recommendation: BUY (initiating coverage)								Ho	ng k	Cong	Retail	
Price	HK\$1.59	Year to	Net profit	EPS	EPS	P/E	P/B	EV/EBITDA	Yield	ROE	ROCE	N. Gear.
Target price	HK\$2.3 (+44.7%)	Mar	HK\$m	HK\$	Δ%	х	х	X	%	%	%	%
12 mth range	HK\$0.87-1.52	05A	107.2	0.189	59.9	8.4	1.08	7.51	2.4	13.9	9.9	83.9
Market cap.	US\$157.8m	06A	129.7	0.170	(9.9)	9.3	1.07	6.26	2.5	13.2	10.2	41.5
Daily t/o, 3 mth	US\$0.9m	07F	162.1	0.209	23.0	7.6	0.98	5.36	2.6	13.6	11.7	59.7
Free float %	49.7%	08F	210.1	0.271	29.6	5.9	0.86	5.18	3.4	15.7	12.4	58.9
Ticker	870.HK/870 HK	09F	273.9	0.354	30.4	4.5	0.75	4.29	4.5	17.8	15.4	50.6

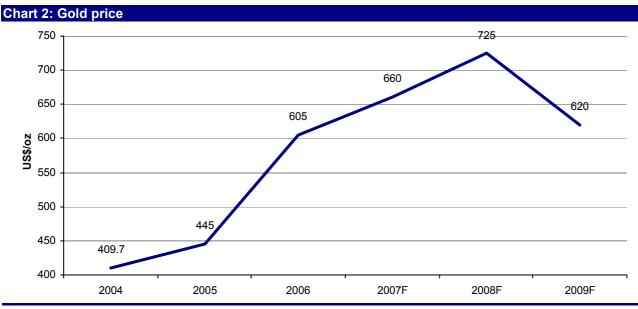
Relative to Hang Seng Index (1 mth, 3 mth, 12 mth): +32.3%, +35.8%, +12.7% Actual price changes (1 mth, 3 mth, 12 mth): +35.9%, +45.9%, +50.0% Consensus EPS (07F-08F): HK\$0.196, HK\$0.235

Key points:

- ➤ Retail contribution to grow to c.50% in FY3/07F.
- The Gold Palace a popular tourist attraction.
- 100 POS to be added in each of the next two years (2007-2008).
- Hidden value of HK\$295m (HK\$0.38/shs) in Gold Exhibits on gold price surge.
- Gains from Gold Exhibit disposals, with lower depreciation expenses, improve operating margins and ROE.
- Net gearing lowered to 41.5% (prev. 66.6%) in FY3/06A with the convertible bond issues.
- Investment in gold exhibits capped at HK\$100m.
- Target price set at HK\$2.3, based on 8.5x FY3/08F P/E.
- **Increasing contributions from brand retailing.** Retails sales is expected to grow c.40% YoY in FY3/07F and contribute c.50% of the total sales in the year, from c.41% in FY3/06A, which will benefit the Group's gross margin as gross margin for the retail segment can be 30-40% higher than wholesale. HFG operates 118 retail outlets in China, mainly in 40 first and second-tier cities with 76 self-owned stores and 42 franchisees. It also operates 13 self-owned stores and six tourism exhibition halls in Hong Kong. It aims to add a total of 200 POS in the next two years (2007-2008), with 100 POS being added every year.
- Chart 1: P/E bands ¬HK\$ 1.5 Apr-03 Apr-04 Apr-06

Source: SBI E2-Capital

- Rising tourist travel. Its exhibition halls in Hong Kong, covering a total area of 100,000 sq.ft., attract over 7,000 visitors daily, enjoying rental advantage of c.4% of total sales. The Gold Palace has become a popular tourist attraction since its first rollout in 2006. HFG is expected to benefit from the rising purchasing power of China's middle class and RMB appreciation.
- Hidden value in Gold Exhibits on gold price surge. HFG's Gold Exhibits, built from 2001 to 2006, contain a total of 5.5 tonnes of solid gold. The average price of gold has risen from US\$274/oz in 2001 to US\$465/oz in 2006 (refer to chart 2), representing an increase of 69.7% or a five-year CAGR of 11.1%. According to our estimation, the rise has created a hidden value of HK\$295m (HK\$0.38/shs) in HFG's book, since the company capitalized the Gold Exhibits as assets. According to the London Bullion Market Association, the average price of gold should rise 9.1% to US\$660/oz in 2007 and peak at US\$725/oz in 2008, which will further boost the hidden value of the Gold Exhibits.



Source: London Bullion Market Association, SBI E2-Capital

Table 1: Porfolio of Gold Exhibits									
	Year of	Cost	Market value (HK\$m)	Estimated gain on disposal					
	establishment	(HK\$m)	(18th Jan 2007)	(HK\$m)					
Gold Kuan Yin	2000/01	13.4	31.1	17.7					
Gold Zodiac	2000/01	6.9	16.2	9.3					
Gold Washroom	2000/01	64.2	134.2	69.9					
Gold Windmill	2003/04	3.9	6.0	2.1					
Gold Carriages (x 2)	2004/05	106.1	155.5	49.3					
Gold Palace	2005/06	399.8	546.3	146.5					
Others		0.5	0.6	0.2					
TOTAL		594.9	889.9	295.0					

Source: SBI E2-Capital

- □ Planned disposal of Gold Chariot. The hidden value of the Gold Exhibits can only be unlocked upon disposal, which will lead to 1) one-off revaluation gain; 2) lower depreciation expenses and 3) rental expenses on the lease back of the sold Gold Exhibits. The degree of improvement in the operating profit margin will depend on the yield of asset leaseback. HFG plans to dispose of one of its two Gold Chariots in 2007, which have a total market value of HK\$155.5m and are expected to generate a disposal gain of HK\$20m each. According to our estimation, the move would lower depreciation expense by c.HK\$5.3m annually. Assuming a leaseback yield of 6.5%, HFG would incur rental expenses of c.HK\$5.1m and thus, the net benefit would be HK\$200,000.
- A turning point if committed to dispose its gold assets. As of 30th Sept 2006, the Gold Exhibits accounted for c.90% of its PPE (HK\$748m). On average, depreciation expenses of >HK\$100m are incurred every year. Although the impact of Gold Chariot disposal is small, we believe that if HFG sells more of its Gold Exhibits and limits new investments, it can boost its operating profit margin substantially. The disposal of its "Gold Wong Tai Temple" in April 2006 generated a gain of HK\$32.8m, and a leaseback yield is c.7%.

Financial Highlights

Table 2: Profit & Loss								
(HK\$m)	05A	06A	07F	08F	09F			
Year to Mar								
- Whole & distribution	1,596.5	1,690.6	1,775.1	1,863.9	1,957.1			
- Brand retailing	970.2	1,189.5	1,665.2	2,414.6	3,139.0			
Turnover	2,566.7	2,880.0	3,440.3	4,278.5	5,096.0			
% chg	24.1	12.2	19.5	24.4	19.1			
Gross profit	902.6	950.3	1,023.9	1,325.0	1,625.9			
EBITDA	257.0	271.6	369.4	399.5	481.0			
Depre./amort.	(120.5)	(111.8)	(158.6)	(134.2)	(115.2)			
EBIT	136.6	159.8	210.8	265.3	365.9			
Net int. income/(exp.)	(26.3)	(49.9)	(39.9)	(56.7)	(61.6)			
Exceptionals	3.1	28.2	3.8	24.7	-			
Associates	-	-	-	-	-			
Jointly-controlled entit.	-	-	-	-	-			
Pre-tax profit	113.4	138.2	174.8	233.3	304.2			
Tax	(6.2)	(8.4)	(17.5)	(23.3)	(30.4)			
Minority interests	-	-	-	-	-			
Net profit	107.2	129.7	157.3	210.0	273.8			
Net profit (pre-exceptionals)	110.6	112.7	171.3	211.1	304.2			

Source: SBI E2-Capital

Table 3: Inter	im results							
Six months to Sep	Turnover (HK\$m)	Gross profit (HK\$m)	Gross margin (%)	Pre-tax profit (HK\$m)	Tax rate (%)	Net profit (HK\$m)	EPS (HK\$)	DPS (HK\$)
1H FY07	1,522.7	448.8	29.5	58.5	11.1	52.0	0.0682	0.015
1H FY06	1,361.2	423.4	31.1	48.4	5.8	48.4	0.0669	0.010
YoY (%)	11.9	6.0		13.9		7.5	1.9	50

Source: Company data

Valuation.

HFG is currently trading at 8.1x FY12/07F P/E, compared to an industry average of 16.7x on jewelers and luxury goods retailers. We believe it will continue to benefit from China's middle class rising consumption power in the long term, with near term catalyst from gold asset disposals. We initiate coverage with a BUY rating and a target price of HK\$2.3, representing 8.5x FY12/08F P/E.

Stock	Ticker	Currency	Price	Market cap	P/E (x)	P/E (x)	Operating	ROA	ROF	Yield
Olock	HICKEI	Guirency	(HK\$)	(US\$m)	1-yr Fwd	` ,	Margin (%)	(%)	(%)	(%)
Jewellers			(111ΑΨ)	(554111)	1-yi i wu	∠-yı i wu	margili (70)	(70)	(/0)	(70)
Hang Fung Gold	870	HKD	1.59	156.8	8.1	6.8	6.3	6.2	13.2	2.5
Chow Sang Sang	116	HKD	5.73	453.8	11.8	10.4	3.6	7.1	9.2	3.0
Luk Fook	590	HKD	2.8	180.0	8.5	6.5	5.5	11.1	13.9	5.7
Tse Sui Luen	417	HKD	0.84	22.3	n.a.	n.a.	3.6	-5.8	-21.0	-
Luxury goods retaile	rs									
Xinyu Hengdeli	3389	HKD	6.6	1,006.5	40.3	28.3	15.1	11.0	24.7	0.8
Dickson	113	HKD	9.79	393.1	15.0	12.3	8.1	10.5	15.4	4.2
Oriental Watch	398	HKD	1.82	64.2	n.a.	n.a.	4.0	6.7	8.8	3.3
Stelux	84	HKD	0.61	78.1	n.a.	n.a.	7.0	11.8	23.3	6.6
Ming Fung	860	HKD	0.51	46.5	n.a.	n.a.	16.1	12.5	20.5	2.0
Average					16.7	12.9	7.7	7.9	12.0	3.5

Source: SBI E2-Capital

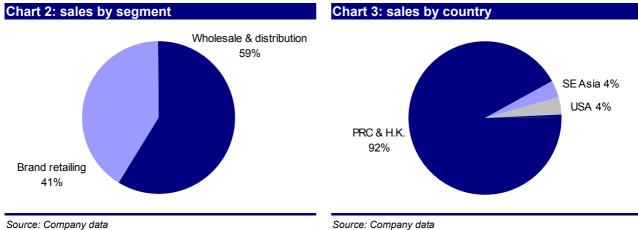
Risk. 1) Slower-than-expected retail expansion; 2) Slowdown in consumption growth in China; 3) High gearing; 4) Dilution from the exercise of CB, but the impact will be offset by earnings growth and 4) New investment in Gold Exhibits.

Corporate governance. 1) PricewaterhouseCoopers has been the auditor since 2002; 2) Management indicated

that dividend payout will be c.20% per year going forward. 3) The founder and chairman of the Group, Mr. Lam Sai Wing, does not have any side-business other than HFG.

Share placement history. 1) In Nov 2006, Goldman Sachs arranged a HK\$240m convertible bond issue (21.44% of enlarged issued share capital) with a conversion price of HK\$1.136/shs expiring in 2011; 2) One for three rights issue of 186.9m shares at HK\$1.01/shs in Apr 2005 and 3) Placement of 72.5m shares at HK\$1.31 in Sept 2003.

Company background. Set up as an OEM gold and jewellery manufacturer in 1979 and listed on the HK Stock Exchange in 1999, Hang Fung Gold (HFG) has diversified into retail selling products under three proprietary brands, "3D-GOLD", "La Milky Way" and "Modeo" (acquired in 2005). It also distributes "BLITA" and "Swiss Horn" watch products. It retails in China, Hong Kong and Macau, with wholesale operations in the U.S., Europe, SE Asia and China. Currently, it has 118 stores in the Mainland in 40 first and second-tier cities, including 76 self-owned stores and 42 franchisees. It operates 13 self-owned stores and six exhibition halls in Hong Kong. China and Hong Kong remain its largest market, accounting for 91.7% of total sales in 1H FY3/06A. Over 70% of its gold wholesales are hedged and are therefore immune to gold price fluctuations.



P & L (HK\$m)	05A	06A	07F	08F	09F
Year to Mar					
Turnover	2,566.7 24.1	2,880.0 12.2	3,440.3 19.5	4,278.5 24.4	5,096.0 19.1
% chg Gross profit	902.6	950.3		1,325.0	
Oross pront	302.0	330.3	1,025.5	1,020.0	1,020.0
EBITDA	257.0	271.6	369.4	399.5	481.0
Depre./amort.	(120.5)	(111.8)	(158.6)	(134.2)	(115.2)
EBIT	136.6	159.8	210.8	265.3	365.9
Net int. income/(exp.)	(26.3)	(49.9)	(34.5)	(56.5)	(61.5)
Exceptionals	3.1	28.2	3.8	24.7	-
Associates	-	-	-	-	-
Jointly-controlled entit.	442.4	420.2	400.0	-	204.4
Pre-tax profit Tax	113.4 (6.2)	138.2	180.2 (18.0)	233.5 (23.3)	304.4 (30.4)
Minority interests	(0.2)	(8.4)	(16.0)	(23.3)	(30.4)
Net profit	107.2	129.7	162.1	210.1	273.9
% chg	n.a.	21.0	25.0	29.6	30.4
Dividends	(28.6)	(30.5)	(32.4)	(42.0)	(54.8)
Retained earnings	78.7	99.2	129.7	168.1	219.2
EPS - Basic	0.189	0.170	0.209	0.271	0.354
EPS - F.D.	0.191	0.166	0.165	0.213	0.278
DPS	0.038	0.040	0.042	0.054	0.071
No. sh.s o/s (m) - W.A.	567.5	762.0	774.2	774.2	774.2
No. sh.s o/s (m) - Y.E.	560.8	774.2	774.2	774.2	774.2
No. sh.s o/s (m) - F.D.	562.0	779.6	985.5	985.5	985.5
Margins (%)					
Gross	35.2	33.0	29.8	31.0	31.9
EBITDA	10.0	9.4	10.7	9.3	9.4
EBIT	5.3	5.5	6.1	6.2	7.2
Pre-tax	4.4	4.8	5.2	5.5	6.0
Net	4.2	4.5	4.7	4.0	<i>E</i> 4
	7.2	4.5	4.7	4.9	5.4
Palance Sheet (UKSm)					
	05A	06A	07F	08F	
Year to Mar					09F
Year to Mar	05 A	06A	07F	08F	09F 473.3
Year to Mar Fixed assets Intangible assets	05 A	06A 727.7	07F 616.0 0.1	08F 528.6 0.3	09F 473.3 0.4
Year to Mar Fixed assets Intangible assets Other LT assets	05A 513.1	06A 727.7 - 5.8	07F 616.0 0.1 5.8 560.8	08F 528.6 0.3 5.8 697.4	09F 473.3 0.4 5.8
Other LT assets Cash Accounts receivable	05A 513.1 - 7.6 122.2 388.8	06A 727.7 - 5.8 473.9 403.3	07F 616.0 0.1 5.8 560.8 481.7	08F 528.6 0.3 5.8 697.4 556.3	830.7 611.6
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables	513.1 - 7.6 122.2 388.8 78.4	727.7 - 5.8 473.9 403.3 40.1	07F 616.0 0.1 5.8 560.8 481.7 47.9	528.6 0.3 5.8 697.4 556.3 59.5	09F 473.3 0.4 5.8 830.7 611.6 70.9
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories	513.1 - 7.6 122.2 388.8 78.4 756.0	727.7 - 5.8 473.9 403.3 40.1	07F 616.0 0.1 5.8 560.8 481.7 47.9	08F 528.6 0.3 5.8 697.4 556.3	09F 473.3 0.4 5.8 830.7 611.6 70.9
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s	513.1 - 7.6 122.2 388.8 78.4 756.0 0.4	727.7 -5.8 473.9 403.3 40.1 889.3	07F 616.0 0.1 5.8 560.8 481.7 47.9	528.6 0.3 5.8 697.4 556.3 59.5	09F 473.3 0.4 5.8 830.7 611.6 70.9
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets	513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3	06A 727.7 - 5.8 473.9 403.3 40.1 889.3	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5	528.6 0.3 5.8 697.4 556.3 59.5 1,326.3	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets	513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3	06A 727.7 - 5.8 473.9 403.3 40.1 889.3	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5	528.6 0.3 5.8 697.4 556.3 59.5	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets	513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8	727.7 - 5.8 473.9 403.3 40.1 889.3	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5	528.6 0.3 5.8 697.4 556.3 59.5 1,326.3	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8	06A 727.7 - 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - - 2,778.8	528.6 0.3 5.8 697.4 556.3 59.5 1,326.3	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 3,572.5
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8	06A 727.7 - 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - - 2,778.8	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 3,174.2 (212.4)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 3,572.5
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3)	06A 727.7 - 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - - 2,778.8	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 3,174.2 (212.4)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 3,572.5
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3)	06A 727.7 - 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - - 2,778.8	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 3,174.2 (212.4)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 3,572.5
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3)	06A 727.7 - 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)(08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 (253.0) (70.7)
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab.	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3)	06A 727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)(6.3)	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 (253.0) (70.7)
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4)	06A 727.7 - 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)((6.3) (504.5)	528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - - 3,174.2 (212.4) (59.3) - - (1,032.3)((7.8) (504.5)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 3,572.5 (253.0) (70.7) (1,157.9) (9.3) (504.5)
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4) (34.9)	06A 727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)((6.3) (504.5) (38.3)	528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 3,572.5 (253.0) (70.7) (1,157.9) (9.3) (504.5) (38.3)
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4)	06A 727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)((6.3) (504.5) (38.3)	528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3)	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 3,572.5 (253.0) (70.7) (1,157.9) (9.3) (504.5) (38.3)
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities Total liabilities	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4) (34.9) (1,043.0)	727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1) (1,172.2)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)((6.3) (504.5) (38.3) (1,574.3)	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3) (1,854.6)(09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 - 3,572.5 (253.0) (70.7) (9.3) (504.5) (38.3) (2,033.7)
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4) (34.9) (1,043.0)(56.1	727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1) (1,172.2) (76.3	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)(6.3) (504.5) (38.3) (1,574.3)(76.3	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3) (1,854.6)(76.3	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 - 3,572.5 (253.0) (70.7) - (1,157.9) (9.3) (504.5) (38.3) (2,033.7)
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities Total liabilities Share capital	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4) (34.9) (1,043.0) 56.1 776.7	727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1) (1,172.2) 76.3 1,051.5	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)(6.3) (504.5) (38.3) (1,574.3)(76.3 1,181.2	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3) (1,854.6)(09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 - 3,572.5 (253.0) (70.7) - (1,157.9) (9.3) (504.5) (38.3) (2,033.7) 76.3
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities Total liabilities Share capital Reserves	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4) (34.9) (1,043.0) 56.1 776.7	727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1) (1,172.2) 76.3 1,051.5	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)(6.3) (504.5) (38.3) (1,574.3)(76.3 1,181.2	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3) (1,854.6)(76.3 1,349.3	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 - 3,572.5 (253.0) (70.7) - (1,157.9) (9.3) (504.5) (38.3) (2,033.7) 76.3
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities Total liabilities Share capital Reserves Shareholders' funds	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (9.3) (275.4) (34.9) (1,043.0) 56.1 776.7 832.8	727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1) (1,172.2) (1,172.2)	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)((6.3) (504.5) (38.3) (1,574.3)(76.3 1,181.2 1,257.5	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3) (1,854.6)(76.3 1,349.3	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 (253.0) (70.7) (1,157.9) (9.3) (504.5) (38.3) 1,568.5 1,644.8
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities Total liabilities Share capital Reserves Shareholders' funds Minority interest Total	513.1 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) (545.3) (9.3) (275.4) (34.9) (1,043.0) 56.1 776.7 832.8	727.7 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1) (1,172.2) (1,172.2) 76.3 1,051.5 1,127.8	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)((6.3) (504.5) (38.3) (1,574.3)(76.3 1,181.2 1,257.5	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3) 1,349.3 1,425.6 - 1,425.6	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 (253.0) (70.7) (1,157.9) (9.3) (504.5) (38.3) 1,568.5 1,644.8
Year to Mar Fixed assets Intangible assets Other LT assets Cash Accounts receivable Other receivables Inventories Due from related co.s Other current assets Total assets Accounts payable Other payable Tax payable Proposed dividend Due to related co.s ST debts Other current liab. LT debts Other LT liabilities Total liabilities Share capital Reserves Shareholders' funds Minority interest	05A 513.1 - 7.6 122.2 388.8 78.4 756.0 0.4 9.3 1,875.8 (140.1) (25.3) (12.7) - (545.3) (93.) (275.4) (34.9) (1,043.0)(56.1 776.7 832.8 - 832.8	727.7 - 5.8 473.9 403.3 40.1 889.3 - 2,540.0 (143.0) (39.9) - (437.4) (5.3) (504.5) (42.1) 76.3 1,051.5 1,127.8 - 1,127.8	07F 616.0 0.1 5.8 560.8 481.7 47.9 1,066.5 - 2,778.8 (170.8) (47.7) - (806.7)((6.3) (504.5) (38.3) 1,181.2 1,257.5 - 1,257.5	08F 528.6 0.3 5.8 697.4 556.3 59.5 1,326.3 - 3,174.2 (212.4) (59.3) - (1,032.3)((7.8) (504.5) (38.3) (1,854.6)(76.3 1,349.3 1,425.6	09F 473.3 0.4 5.8 830.7 611.6 70.9 1,579.8 (253.0) (70.7) (3.3,572.5 (253.0) (70.7) (3.3) (504.5) (38.3) 1,568.5 1,644.8 3,307.2

			ООГР	orate	ı ıasıı
Cash Flow (HK\$m)	05A	06A	07F	08F	09F
Year to Mar					
EBIT	136.6	159.8	210.8	265.3	365.9
Depre./amort.	120.9	111.9	158.8	134.4	115.3
Net int. paid	(26.3)	(49.9)	(34.5)	(56.5)	(61.5)
Tax paid	(6.0)	(10.0)	(18.0)	(23.3)	(30.4)
Div. from associates	-	-	-	-	-
Gross cashflow	225.2	211.9	317.1	319.8	389.3
Chgs. in working cap.	(132.1)	(562.1)	(318.2)	(427.9)	(400.0)
Operating cashflow	93.1	(350.2)	(1.1)	(108.1)	(10.8)
Capex	(109.8)	(214.7)	(100.0)	(100.0)	(60.0)
Free cashflow	(16.7)	(564.9)	(101.1)	(208.1)	(70.8)
Dividends paid	(28.6)	(6.8)	(32.4)	(42.0)	(54.8)
Net distribution to MI		-		-	
Investments		-	-	-	_
Disposals	1.0	28.2	-	24.7	-
New shares	6.4	92.0	-	-	-
Others	(147.4)	682.0	(148.8)	136.5	133.1
Net cashflow	(185.2)	230.5	(282.4)	(89.0)	7.6
Net (debt)/cash - Beg.	(513.3)	(698.5)	(468.0)	(750.4)	(839.3)
Net (debt)/cash - End.		(468.0)			
Interim Results (HK\$m)	05A	06A	07A		
Six months to Sept					
Turnover	913.9	1,361.2	1,522.7		
% chg	5.0	48.9	11.9		
Profit from operations	49.1	73.5	86.3		
Interest expenses	(13.2)	(22.1)	(27.8)		
Exceptionals	-	-	-		
Associates	-	-	-		
Jointly-controlled entit.	-	-	-		
Pre-tax profit	35.9	51.4	58.5		
Tax	(3.2)	(3.0)	(6.5)		
Minority interests	-	-	-		
Net profit	32.7	48.4	52.0		
% chg	27.7	48.0	7.5		
Dividend	25.3	7.6	11.6		
EPS (HK\$) - W.A.	0.068	0.067	0.068		
EPS (HK\$) - F.D.	0.068	0.067	0.068		
DDS (HK¢)	0.020	0.010	0.015		

Snareholding Structure		
	Shares o/s (m)	%
Mr. Lam Sai Wing	316.0	40.82
Phenomental Ltd.	68.8	8.89
Public	389.4	50.29
Total	774.2	100

0.020 0.010

0.015

Background

DPS (HK\$)

Hang Fung Gold designs, manufactures and distributes a broad range of gold, silver, precious metal and other jewellery products, under 3-D Gold La Milky Way and Modeo. It operates 6 exhibition halls and 13 shops in H.K. and 118 stores in China.

Key Ratios (%)	05A	06A	07F	08F	09F
Net gearing	83.9	41.5	59.7	58.9	50.6
NET ROE	13.9	13.2	13.6	15.7	17.8
EBIT ROCE	9.9	10.2	11.7	12.4	15.4
WACC	11.1	11.1	11.1	11.1	11.1
Dividend payout ratio	26.6	23.5	20.0	20.0	20.0
Effective tax rate	5.4	6.1	10.0	10.0	10.0
Net interest cover. (x)	5.2	3.2	6.1	4.7	6.0
A/R days	54.6	50.2	46.9	44.3	41.8
A/P days	25.0	26.8	23.7	23.7	24.5
Inventory days	153.2	155.6	147.7	147.9	152.8

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BUY: absolute upside of >10% over the next six months
HOLD: absolute return of -10% to +10% over the next six months
SELL: absolute downside of >10% over the next six months

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