

The Directors have the pleasure of presenting the annual report together with the audited accounts of Hang Fung Gold Technology Limited ("the Company") and its subsidiaries (together "the Group") for the year ended 31st March 2003.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL 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 business and geographical segments is set out in Note 31 to the accounts.

CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2003, the five largest customers of the Group accounted for approximately 8.3% (2002: 11.1%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 86.4% (2002: 91.7%) of the Group's total purchases. The largest customer of the Group accounted for approximately 2.0% (2002: 2.8%) of the Group's total turnover while the largest supplier accounted for approximately 67.2% (2002: 62.7%) 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 31st March 2003 are set out in the consolidated profit and loss account on page 31. The Directors do not recommend the payment of a dividend and recommend that the Group's retained profits of approximately HK\$443,822,000 (2002: HK\$360,322,000) as at 31st March 2003 be carried forward.

SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 27 to the accounts.

RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 29 to the accounts.

As at 31st March 2003, the Company had reserves of approximately HK\$244,669,000 available for distribution to shareholders (2002: HK\$254,231,000).

PURCHASE, SALE OR REDEMPTION OF SHARES

Save as disclosed in Note 27 to the accounts, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st March 2003.

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 6 and 7.

FIXED ASSETS AND INVESTMENT PROPERTY

Details of movements in fixed assets and investment property during the year are set out in Notes 13 and 14, respectively, to the accounts.

SUBSIDIARIES AND ASSOCIATES

Particulars of the Company's subsidiaries and associates are set out in Notes 15 and 16, respectively, to the accounts.

BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31st March 2003 are set out in Notes 21, 22 and 35, respectively, to the accounts.

PENSION SCHEME

Details of the pension scheme are set out in Note 34 to the accounts.

CONNECTED TRANSACTIONS

Certain related party transactions disclosed in Note 3 to the accounts constituted connected transactions under Chapter 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules"). Details of such connected transactions are as follows:

- a. A loan agreement dated 24th June 2000 was entered into between the Group and New Epoch Information (BVI) Company Limited ("NEI") in which the Group agreed to make available to NEI a loan facility of up to HK\$50,000,000, repayable on the third anniversary after the first loan advance with interest to be accrued at the rate of 2.5% on top of the Hong Kong dollars best lending rate as quoted by The Hongkong and Shanghai Banking Corporation Limited and payable annually in arrears. During the year ended 31st March 2001, the loan was drawdown in stages by NEI to a total amount of HK\$50,000,000 (the "Loan"). The proceeds of the Loan were to be applied solely for the purpose of developing the internet and e-commerce business of NEI and its subsidiaries and associates. The outstanding amount of the Loan was secured by 13.4% equity interest in NEI not owned by the Group. During the year ended 31st March 2003, the Group earned interest of HK\$1,758,000 on the Loan.

The Directors are of the opinion that the above transaction is fair and reasonable and was negotiated on an arm's length basis and was entered into on normal commercial terms. Pursuant to the requirements set by The Stock Exchange of Hong Kong Limited for a waiver granted to the Group from strict compliance with the relevant requirements as set out in Chapter 14 of the Listing Rules, the connected transaction mentioned above for the year ended 31st March 2003 has been reviewed by the independent non-executive directors and the auditors of the Company, and has been approved by the Board of Directors.

- b. Pursuant to a sale and purchase agreement (the "S&P Agreement") dated 12th December 2002 entered into between the Group and New Epoch Holdings International Limited ("NEH"), a substantial shareholder of the Company, the Group agreed to assign the Loan and the accrued interest thereon and to transfer its entire 49.9% equity interest in NEI to NEH. In addition, the Group agreed to purchase 700,000,000 shares of HK\$0.01 each in the capital of the Company held by NEH. The consideration for the share repurchase was satisfied by way of a set-off against the consideration payable to the Group by NEH for the loan assignment and equity transfer as mentioned above. The transaction was completed in February 2003. The repurchased shares were valued at approximately HK\$60,900,000. The Group also waived the payment of interest on the Loan from 14th September 2002 to the date of completion of the S&P Agreement.

The independent non-executive directors of the Company are of the opinion that the above transaction is fair and reasonable so far as the disinterested shareholders of the Company are concerned. Details of the S&P Agreement and the transactions contemplated thereunder are set out in the circular of the Company dated 4th January 2003.

Directors' Report

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*)

Non-executive director

Mr. Wong Kwong Chi

Independent non-executive directors

Mr. Liu Ngai Wing
Mr. Lee Kok Keung

In accordance with the Bye-laws of the Company, Ms. Chan Yam Fai, Jane will retire from office and, being eligible, offer herself 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 three years commencing from 1st October 2001, which continue thereafter until terminated by either party. 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 IN SHARES

As at 31st March 2003, the directors of the Company had the following beneficial interests in the share capital of the Company and its associated corporations within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

a. The Company

	Number of shares			Total
	Personal Interest	Family Interest	Corporate Interest	
Dr. Lam Sai Wing (<i>Note 1</i>)	-	-	1,674,067,500	1,674,067,500

Note 1:

Quality Prince Limited is a company wholly owned by S.W. Lam, Inc. Dr. Lam Sai Wing, the chairman of the Company, beneficially owns approximately 82% of the shares of S.W. Lam, Inc. Dr. Lam Sai Wing through Good Day Holdings Limited and a nominee is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of S.W. Lam, Inc. S.W. Lam, Inc. is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Quality Prince Limited. Accordingly, Dr. Lam Sai Wing is deemed to be interested in all shares in the Company held by Quality Prince Limited.

DIRECTORS' INTERESTS IN SHARES (continued)

b. 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 2)	1
	Kai Hang Jewellery Company Limited	8,000 Class A (non-voting) ordinary (Note 2)	8,000
Ms. Chan Yam Fai, Jane	Hang Fung Jewellery Company Limited	1 Class A (non-voting) ordinary (Note 2)	1
	Kai Hang Jewellery Company Limited	2,000 Class A (non-voting) ordinary (Note 2)	2,000

Note 2:

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.

SHARE OPTIONS

At the annual general meeting of the Company held on 28th 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.

SHARE OPTIONS (continued)

a. Old Scheme

The Old Scheme was adopted on 27th February 1999 and was terminated on 28th 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 31st March 2003, the total number of shares which might be issued on the exercise of the outstanding options granted under the Old Scheme was 473,000,000 shares, representing 10.1% of the issued share capital of the Company.

b. New Scheme

The New Scheme was effective on 28th 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. The maximum number of shares is 539,064,000 shares, representing 10% of the issued share capital of the Company as at the date of the passing of the ordinary resolution. 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.

(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.

(xi) Life of the scheme

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

c. Movements of share options

Movements of employee share options during the year ended 31st March 2003 are:

Date of grant	Exercise period	Exercise price	Number of share options			End of year
			Beginning of year	Granted during the year	Exercised during the year	
			'000	'000	'000	'000
<i>Old Scheme</i>						
9th June 2000	9th June 2001 to 26th February 2009	HK\$0.109	315,000	-	(60,200)	254,800
10th April 2002	10th April 2003 to 26th February 2009	HK\$0.149	-	218,200	-	218,200
<i>New Scheme</i>						
19th February 2003	19th February 2004 to 27th August 2012	HK\$0.086	-	269,532	-	269,532
			315,000	487,732	(60,200)	742,532

SHARE OPTIONS (continued)

c. Movements of share options (continued)

Notes:

1. The closing prices of the Company's shares immediately before the dates of grant of options on 10th April 2002 and 19th February 2003 were HK\$0.151 and HK\$0.085 respectively.
2. The weighted average closing price of the shares immediately before the dates on which the options were exercised during the year was HK\$0.142.
3. No options were cancelled or lapsed during the year ended 31st March 2003.

d. Valuation of share options

The share options granted are not recognised in the accounts until they are exercised. The Directors consider that it is not appropriate to value the share options on the ground that certain crucial factors for such valuation are variables which cannot be reasonably determined at this stage. Any valuation of the share options based on speculative assumptions in respect of such variables would not be meaningful and the results thereof may be misleading to the shareholders.

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.

Directors' Report

SUBSTANTIAL SHAREHOLDERS

As at 31st March 2003, the following entities (not being a director or chief executive of the Company) had registered an interests in 5% or more of the issued share capital of the Company:

Name	Number of shares	Percentage holding
Good Day Holdings Limited (<i>Note 1</i>)	1,674,067,500	35.69%
S.W. Lam, Inc. (<i>Note 1</i>)	1,674,067,500	35.69%
Quality Prince Limited (<i>Note 1</i>)	1,674,067,500	35.69%
Phenomenal Limited	688,432,500	14.68%
Mr. Fok Chun Yue, Benjamin (<i>Note 2</i>)	422,000,000	9.00%
New Epoch Holdings International Limited (<i>Note 2</i>)	422,000,000	9.00%

Notes:

1. Quality Prince Limited is a company wholly owned by S.W. Lam, Inc. Good Day Holdings Limited is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of S.W. Lam, Inc.
2. Mr. Fok Chun Yue, Benjamin beneficially owns more than 50% of the issued share capital of New Epoch Holdings International Limited, a company incorporated in the British Virgin Islands.

Save as disclosed above, the Company had no notice of any interests to be disclosed under Section 16(1) of the SDI Ordinance as at 31st March 2003.

AUDIT COMMITTEE

In accordance with the requirements of the Listing Rules, the Group established an Audit Committee on 28th December 1999 comprising a non-executive director and two independent non-executive directors of the Company. They are responsible for dealing with audit related matters which include reviewing and supervising the financial reporting process and internal control to protect the interests of the shareholders.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in the Listing Rules throughout the accounting period covered by the annual report, except that the independent non-executive directors of the Company are not appointed for specific terms but are subject to retirement by rotation in accordance with the Company's Bye-laws.

SUBSEQUENT EVENT

Details of the significant subsequent event of the Group are set out in Note 36 to the accounts.

AUDITORS

The accounts for the year ended 31st March 2001 were audited by Arthur Andersen & Co. The accounts for the years ended 31st March 2002 and 2003 were audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for reappointment.

On behalf of the Board of Directors,

LAM SAI WING

Chairman

Hong Kong, 25th July 2003