



**HANG FUNG GOLD TECHNOLOGY LIMITED**

**(恒 豐 金 業 科 技 有 限 公 司)**

Incorporated in Bermuda with limited liability



**Gold for**

**the Future**

**Interim Report 2003 - 2004**

The Directors of Hang Fung Gold Technology Limited (“the Company”) is pleased to present the interim report together with the unaudited accounts of the Company and its subsidiaries (together “the Group”) for the six months ended 30th September, 2003 together with comparative figures for the corresponding period in 2002 as follows:

### CONSOLIDATED PROFIT AND LOSS ACCOUNT

|  |             | <b>(Unaudited)</b>      |                 |
|--|-------------|-------------------------|-----------------|
|  |             | <b>Six months ended</b> |                 |
|  |             | <b>30th September,</b>  |                 |
|  |             | <b>2003</b>             | 2002            |
|  | <i>Note</i> | <b>HK\$'000</b>         | <i>HK\$'000</i> |
| Turnover   | 2           | <b>913,876</b>          | 870,260         |
| Cost of sales  |             | <b>(746,012)</b>        | (718,206)       |
| Gross profit   |             | <b>167,864</b>          | 152,054         |
| Other revenues   |             | <b>696</b>              | 2,956           |
| Selling and marketing expenses   |             | <b>(68,998)</b>         | (57,537)        |
| General and administrative expenses  |             | <b>(50,458)</b>         | (49,947)        |
| Profit from operations   | 3           | <b>49,104</b>           | 47,526          |
| Finance cost   |             | <b>(13,239)</b>         | (11,900)        |
| Share of losses of associates and provision<br>against advance to an associate |             | –                       | (6,861)         |
| Profit before taxation   |             | <b>35,865</b>           | 28,765          |
| Taxation   | 4           | <b>(3,150)</b>          | (3,200)         |
| Profit attributable to shareholders  |             | <b>32,715</b>           | 25,565          |
| Dividends  | 5           | <b>11,216</b>           | –               |
| Earnings per share   | 6           |                         |                 |
| – Basic  |             | <b>6.81 cents</b>       | 4.76 cents      |
| – Diluted  |             | <b>6.77 cents</b>       | 4.73 cents      |

**CONSOLIDATED BALANCE SHEET**

|   | (Unaudited)<br>30th<br>September,<br>2003<br>Note <b>HK\$'000</b> | (Audited)<br>31st<br>March,<br>2003<br><b>HK\$'000</b> |
|---|---|--|
| <b>NON-CURRENT ASSETS</b>                   |   |  |
| Fixed assets                                | <b>367,358</b>  | 384,150  |
| Investment property                         | <b>1,220</b>  | 1,220  |
| Total non-current assets                    | <b>368,578</b>  | 385,370  |
| <b>CURRENT ASSETS</b>                       |   |  |
| Inventories                                 | <b>535,587</b>  | 485,309  |
| Accounts receivable                         | 7 <b>366,914</b>  | 311,589  |
| Due from intermediate holding companies     | <b>1,341</b>  | –  |
| Prepayments, deposits and other receivables | <b>12,180</b>   | 15,874   |
| Investments                                 | <b>5,456</b>  | 5,320  |
| Pledged bank deposits                       | <b>101,780</b>  | 105,190  |
| Cash and bank deposits                      | <b>60,034</b>   | 13,760   |
| Total current assets                        | <b>1,083,292</b>  | 937,042  |
| <b>CURRENT LIABILITIES</b>                  |   |  |
| Short-term bank borrowings                  | <b>(476,326)</b>  | (479,365)  |
| Finance lease obligations, current portion  | <b>(16,910)</b>   | (21,184)   |
| Accounts payable                            | 8 <b>(80,715)</b>   | (72,079)   |
| Accruals and other payables                 | <b>(18,181)</b>   | (15,365)   |
| Due to a director                           | <b>(6,978)</b>  | (3,519)  |
| Taxation payable                            | <b>(23,243)</b>   | (21,370)   |
| Total current liabilities                   | <b>(622,353)</b>  | (612,882)  |
| Net current assets                          | <b>460,939</b>  | 324,160  |
| Total assets less current liabilities       | <b>829,517</b>  | 709,530  |
| <b>NON-CURRENT LIABILITIES</b>              |   |  |
| Long-term bank loans                        | <b>(86,751)</b>   | (100,491)  |
| Finance lease obligations                   | <b>(10,871)</b>   | (18,400)   |
| Deferred taxation                           | <b>(20,486)</b>   | (20,486)   |
| Total non-current liabilities               | <b>(118,108)</b>  | (139,377)  |
| Net assets                                  | <b>711,409</b>  | 570,153  |
| Representing:                               |   |  |
| <b>SHARE CAPITAL</b>                        | 9 <b>56,079</b>   | 46,906   |
| <b>RESERVES</b>                             | 11 <b>644,114</b>   | 523,247  |
| <b>PROPOSED DIVIDENDS</b>                   | 11 <b>11,216</b>  | –  |
| Shareholders' equity                        | <b>711,409</b>  | 570,153  |

**CONSOLIDATED CASH FLOW STATEMENT**

|  | <b>(Unaudited)</b>      |                 |
|--|-------------------------|-----------------|
|  | <b>Six months ended</b> |                 |
|  | <b>30th September,</b>  |                 |
|  | <b>2003</b>             | <b>2002</b>     |
|  | <b>HK\$'000</b>         | <b>HK\$'000</b> |
| <b>OPERATING ACTIVITIES</b>                                |                         |                 |
| Net cash inflow (outflow) generated from operations        | <b>10,973</b>           | (44,745)        |
| Interest received  | <b>696</b>              | 1,018           |
| Interest paid  | <b>(13,239)</b>         | (11,900)        |
| Hong Kong profits tax paid                                 | <b>(1,277)</b>          | –               |
| Net cash outflow from operating activities                 | <b>(2,847)</b>          | (55,627)        |
| <b>INVESTING ACTIVITIES</b>                                |                         |                 |
| Additions of fixed assets                                  | <b>(36,189)</b>         | (19,852)        |
| Increase in amount due from intermediate holding companies | <b>(1,341)</b>          | (221)           |
| Net cash outflow from investing activities                 | <b>(37,530)</b>         | (20,073)        |
| Net cash outflow before financing activities               | <b>(40,377)</b>         | (75,700)        |
| <b>FINANCING ACTIVITIES</b>                                |                         |                 |
| Issue of shares pursuant to a top-up placing, net          | <b>91,977</b>           | –               |
| Issue of shares upon exercise of share options             | <b>16,564</b>           | 6,562           |
| Repurchase of shares                                       | –                       | (178)           |
| New long-term bank loans                                   | <b>30,000</b>           | 120,000         |
| Repayment of long-term bank loans                          | <b>(60,484)</b>         | (5,530)         |
| New short-term bank borrowings                             | <b>598,272</b>          | 519,900         |
| Repayment of short-term bank borrowings                    | <b>(580,754)</b>        | (524,733)       |
| Repayment of capital element of finance lease obligations  | <b>(11,980)</b>         | (10,993)        |
| Decrease (increase) in pledged bank deposits               | <b>3,410</b>            | (6,668)         |
| Increase in amount due to a director                       | <b>3,459</b>            | –               |
| Net cash inflow from financing activities                  | <b>90,464</b>           | 98,360          |
| Increase in cash and cash equivalents                      | <b>50,087</b>           | 22,660          |
| <b>CASH AND CASH EQUIVALENTS</b>                           |                         |                 |
| Beginning of period  | <b>9,931</b>            | 3,649           |
| End of period  | <b>60,018</b>           | 26,309          |

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

|  | <b>(Unaudited)</b>      |                 |
|--|-------------------------|-----------------|
|  | <b>Six months ended</b> |                 |
|  | <b>30th September,</b>  |                 |
|  | <b>2003</b>             | <b>2002</b>     |
|  | <b>HK\$'000</b>         | <b>HK\$'000</b> |
| Balance as at beginning of period              | <b>570,153</b>          | 541,169         |
| Profit for the period                          | <b>32,715</b>           | 25,565          |
| Issue of shares pursuant to a top-up placing   | <b>94,936</b>           | –               |
| Placing expenses                               | <b>(2,959)</b>          | –               |
| Issue of shares upon exercise of share options | <b>16,564</b>           | 6,562           |
| Repurchase of shares                           | –                       | (178)           |
| Balance as at end of period                    | <b><u>711,409</u></b>   | <u>573,118</u>  |

*Notes:*

### **1. Basis of preparation and accounting policies**

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“SSAP”) 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and Appendix 16 of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). These interim accounts should be read in conjunction with the annual accounts for the year ended 31st March, 2003.

These interim accounts have been prepared on a basis consistent with the principal accounting policies adopted in the annual accounts for the year ended 31st March, 2003 except that the Group has adopted the revised SSAP 12 “Income Taxes” which is effective for accounting periods commencing on or after 1st January, 2003.

Under the revised SSAP 12, deferred taxation 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 accounts. Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

In prior years, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the revised SSAP 12 represents a change in accounting policy, which has been applied retrospectively. Nevertheless, the adoption of the revised SSAP 12 has not resulted in any changes to the prior periods’ net assets and results.

## 2. Segment information

### (a) Business segments

The Group is organised into two main business segments: (i) wholesale, trading and retail of gold products, other precious metal products and jewellery products; and (ii) investment holding.

There are no sales or other transactions between the business segments.

An analysis by business segment is as follows:

|   | <b>Six months ended 30th September, 2003</b>              |  |                           |
|---|---|--|---------------------------|
|   | <b>Wholesale,<br/>trading<br/>and retail<br/>HK\$'000</b> | <b>Investment<br/>holding<br/>HK\$'000</b> | <b>Total<br/>HK\$'000</b> |
| <b>Turnover</b>   |   |  |                           |
| Sales to external customers   | <u>913,846</u>  | <u>30</u>                                  | <u>913,876</u>            |
| <b>Operating results</b>  |   |  |                           |
| Segment results   | <u>49,079</u>   | <u>25</u>                                  | <u>49,104</u>             |
| Share of losses of associates and provision against advance to an associate | <u>-</u>  | <u>-</u>                                   | <u>-</u>                  |
| Finance cost  |   |  | <b>(13,239)</b>           |
| Taxation  |   |  | <u><b>(3,150)</b></u>     |
| Profit attributable to shareholders   |   |  | <u><b>32,715</b></u>      |

**2. Segment information** (continued)(a) *Business segments* (continued)

|   | Six months ended 30th September, 2002           |                                   |                   |
|---|---|-----------------------------------|-------------------|
|   | Wholesale,<br>trading<br>and retail<br>HK\$'000 | Investment<br>holding<br>HK\$'000 | Total<br>HK\$'000 |
| <b>Turnover</b>   |   |                                   |                   |
| Sales to external customers   | <u>870,220</u>                                  | <u>40</u>                         | <u>870,260</u>    |
| <b>Operating results</b>  |   |                                   |                   |
| Segment results   | <u>47,492</u>                                   | <u>34</u>                         | 47,526            |
| Share of losses of associates and<br>provision against advance to<br>an associate | <u>–</u>  | <u>(6,861)</u>                    | (6,861)           |
| Finance cost  |   |                                   | (11,900)          |
| Taxation  |   |                                   | <u>(3,200)</u>    |
| Profit attributable to shareholders   |   |                                   | <u>25,565</u>     |



**2. Segment information** (continued)*(b) Geographical segments*

An analysis by geographical segment is as follows:

|                              | <b>Turnover**</b>       |                 | <b>Segment results</b>  |                 |
|------------------------------|-------------------------|-----------------|-------------------------|-----------------|
|                              | <b>Six months ended</b> |                 | <b>Six months ended</b> |                 |
|                              | <b>30th September,</b>  |                 | <b>30th September,</b>  |                 |
|                              | <b>2003</b>             | <b>2002</b>     | <b>2003</b>             | <b>2002</b>     |
|                              | <b>HK\$'000</b>         | <b>HK\$'000</b> | <b>HK\$'000</b>         | <b>HK\$'000</b> |
| Hong Kong/Mainland China     | <b>782,677</b>          | 746,059         | <b>31,478</b>           | 32,204          |
| South-East Asia              | <b>71,622</b>           | 77,950          | <b>5,475</b>            | 5,802           |
| The United States of America | <b>52,449</b>           | 41,744          | <b>10,827</b>           | 8,534           |
| Europe                       | <b>4,852</b>            | 3,898           | <b>1,196</b>            | 953             |
| Others                       | <b>2,276</b>            | 609             | <b>128</b>              | 33              |
|                              | <b>913,876</b>          | 870,260         | <b>49,104</b>           | 47,526          |

\*\* Turnover by geographical location is determined on the basis of the destination of shipments/deliveries of merchandise.

**3. Profit from operations**

Profit from operations was determined after charging:

|                              | <b>Six months ended</b> |                 |
|------------------------------|-------------------------|-----------------|
|                              | <b>30th September,</b>  |                 |
|                              | <b>2003</b>             | <b>2002</b>     |
|                              | <b>HK\$'000</b>         | <b>HK\$'000</b> |
| Depreciation of fixed assets | <b>53,158</b>           | 46,216          |

#### 4. Taxation

Taxation consisted of:

|                         | <b>Six months ended<br/>30th September,</b> |                 |
|-------------------------|---|-----------------|
|                         | <b>2003</b>                                 | 2002            |
|                         | <b>HK\$'000</b>                             | <i>HK\$'000</i> |
| Current taxation        |   |                 |
| – Hong Kong profits tax | <b>3,150</b>                                | 3,200           |

The Company is exempted from taxation in Bermuda until 2016. Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit arising in or derived from Hong Kong. No Mainland China enterprise income tax has been provided as the Group had no profit subject to such tax during the period.

#### 5. Dividends

|  | <b>Six months ended<br/>30th September,</b> |                 |
|--|---|-----------------|
|  | <b>2003</b>                                 | 2002            |
|  | <b>HK\$'000</b>                             | <i>HK\$'000</i> |
| Interim, proposed, of 1.2 HK cents (2002: Nil) per share | <b>6,730</b>                                | –               |
| Special, proposed, of 0.8 HK cent (2002: Nil) per share  | <b>4,486</b>                                | –               |
|  | <b>11,216</b>                               | –               |

#### 6. Earnings per share

The calculation of basic earnings per share for the six months ended 30th September, 2003 is based on the profit attributable to shareholders of approximately HK\$32,715,000 (2002: HK\$25,565,000) and on the weighted average number of approximately 480,089,137 shares (2002: 537,467,607 shares) in issue during the period, after taking into consideration of the ten-to-one consolidation of shares on 30th April, 2003.

**6. Earnings per share** *(continued)*

The calculation of diluted earnings per share for the six months ended 30th September, 2003 is based on the profit attributable to shareholders of approximately HK\$32,715,000 (2002: HK\$25,565,000) and on the weighted average number of approximately 483,073,484 shares (2002: 539,935,020 shares) in issue during the period, after adjusting for the potential dilutive effect of outstanding share options and taking into consideration of the ten-to-one consolidation of shares on 30th April, 2003.

**7. Accounts receivable**

The Group grants to majority of its customers credit periods ranging from 30 days to 120 days.

The ageing analysis of accounts receivable is as follows:

|  | <b>30th September,<br/>2003<br/>HK\$'000</b> | 31st March,<br>2003<br>HK\$'000 |
|--|--|---------------------------------|
| 0 to 90 days                               | <b>358,213</b>                               | 226,370                         |
| 91 to 180 days                             | <b>17,742</b>                                | 81,676                          |
| 181 to 270 days                            | <b>959</b>                                   | 13,543                          |
|  | <b>376,914</b>                               | 321,589                         |
| Less: Provision for bad and doubtful debts | <b>(10,000)</b>                              | (10,000)                        |
|  | <b>366,914</b>                               | 311,589                         |

**8. Accounts payable**

The ageing analysis of accounts payable is as follows:

|                 | <b>30th September,<br/>2003<br/>HK\$'000</b> | 31st March,<br>2003<br>HK\$'000 |
|-----------------|--|---------------------------------|
| 0 to 90 days    | <b>79,337</b>                                | 64,756                          |
| 91 to 180 days  | <b>923</b>                                   | 4,722                           |
| 181 to 270 days | <b>455</b>                                   | 2,601                           |
|                 | <b>80,715</b>                                | 72,079                          |

## 9. Share capital

Movements of share capital during the six months ended 30th September, 2003 were:

|  | <b>Number<br/>of shares</b><br><i>'000</i> | <b>Nominal<br/>value</b><br><i>HK\$'000</i> |
|--|--|---|
| <i>Authorized</i>  |  |   |
| At 1st April, 2003, ordinary shares of HK\$0.01 each         | 20,000,000                                 | 200,000                                     |
| Consolidation of shares                                      | <u>(18,000,000)</u>                        | <u>–</u>                                    |
| At 30th September, 2003, ordinary shares of<br>HK\$0.10 each | <u>2,000,000</u>                           | <u>200,000</u>                              |
| <i>Issued and fully paid</i>                                 |  |   |
| At 1st April, 2003, ordinary shares of HK\$0.01 each         | 4,690,640                                  | 46,906                                      |
| Consolidation of shares                                      | (4,221,576)                                | –   |
| Issue of shares pursuant to a top-up placing                 | 72,470                                     | 7,247                                       |
| Issue of shares upon exercise of share options               | <u>19,260</u>                              | <u>1,926</u>                                |
| At 30th September, 2003, ordinary shares of<br>HK\$0.10 each | <u>560,794</u>                             | <u>56,079</u>                               |

Pursuant to an ordinary resolution passed at a special general meeting of the Company on 30th April, 2003, every ten issued and unissued ordinary shares of the Company of HK\$0.01 each were consolidated into one ordinary share of HK\$0.10 each with effect from 2nd May, 2003 ("Share Consolidation").

In September 2003, 72,470,000 ordinary shares of HK\$0.10 each were issued pursuant to a top-up placing at a price of HK\$1.31 per share for an aggregate cash consideration of approximately HK\$94,936,000 before expenses.

During the six months ended 30th September, 2003, 19,260,000 ordinary shares of HK\$0.10 each were issued pursuant to the exercise of share options at an exercise price of HK\$0.86 per share for an aggregate cash consideration of approximately HK\$16,564,000.

## 10. Share options

Effect from 28th August, 2002, the Company has adopted a new share option scheme (the “New Scheme”) and terminated the old share option scheme adopted on 27th February, 1999 (the “Old Scheme”).

Movements of employee share options during the six months ended 30th September, 2003 were:

| Date of grant       | Exercise period                         | Exercise price | Number of share options |                           |                             | End of period |
|---------------------|---|----------------|-------------------------|---------------------------|-----------------------------|---------------|
|                     |   |                | Beginning of period     | Granted during the period | Exercised during the period |               |
|                     |   |                | '000                    | '000                      | '000                        | '000          |
| <i>Old Scheme</i>   |   |                |                         |                           |                             |               |
| 9th June, 2000      | 9th June, 2001 to 26th February, 2009   | HK\$1.09       | 25,480                  | –                         | –                           | 25,480        |
| 10th April, 2002    | 10th April, 2003 to 26th February, 2009 | HK\$1.49       | 21,820                  | –                         | –                           | 21,820        |
| <i>New Scheme</i>   |   |                |                         |                           |                             |               |
| 19th February, 2003 | 31st July, 2003 to 27th August, 2012    | HK\$0.86       | 26,953                  | –                         | (19,260)                    | 7,693         |
|                     |   |                | <u>74,253</u>           | <u>–</u>                  | <u>(19,260)</u>             | <u>54,993</u> |

The number of shares for subscription and exercise prices of the share options presented above have been adjusted for the effect of the Share Consolidation.

The weighted average closing price of the shares immediately before the dates on which the options were exercised during the period was HK\$1.24.

No options were cancelled or lapsed during the six months ended 30th September, 2003.

## 11. Reserves

Movements of reserves during the six months ended 30th September, 2003 were:

|   | Share<br>premium<br><i>HK\$'000</i> | Capital<br>redemption<br>reserve<br><i>HK\$'000</i> | Contributed<br>surplus<br><i>HK\$'000</i> | Retained<br>profits<br><i>HK\$'000</i> | Total<br><i>HK\$'000</i> |
|---|-------------------------------------|---|---|--|--------------------------|
| At 1st April, 2003                                | –                                   | 7,016   | 72,409                                    | 443,822                                | 523,247                  |
| Issue of shares pursuant to<br>a top-up placing   | 87,689                              | –   | –   | –                                      | 87,689                   |
| Placing expenses                                  | (2,959)                             | –   | –   | –                                      | (2,959)                  |
| Issue of shares upon exercise<br>of share options | 14,638                              | –   | –   | –                                      | 14,638                   |
| Profit for the period                             | –                                   | –   | –   | 32,715                                 | 32,715                   |
|   | <hr/>                               | <hr/>   | <hr/>                                     | <hr/>                                  | <hr/>                    |
| At 30th September, 2003                           | 99,368                              | 7,016   | 72,409                                    | 476,537                                | 655,330                  |
| <i>Representing:</i>                              |                                     |   |   |  |                          |
| Reserves  |                                     |   |   |  | 644,114                  |
| Proposed dividends                                |                                     |   |   |  | 11,216                   |
|   |                                     |   |   |  | <hr/>                    |
| At 30th September, 2003                           |                                     |   |   |  | 655,330                  |

## 12. Contingent liabilities

The Group did not had any significant contingent liabilities as at 30th September, 2003 (31st March, 2003: nil).

## 13. Comparative figures

Certain comparative figures have been reclassified to conform with the current period's presentation.

## INTERIM DIVIDEND AND SPECIAL DIVIDEND

The Directors have declared an interim dividend of 1.2 HK cents (2002: Nil) per share and a special dividend of 0.8 HK cent (2002: Nil) per share to be payable on or about 6th February, 2004 to shareholders whose names appear in the Register of Members of the Company on 16th January, 2004.

## CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 15th January, 2004 to 16th January, 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend and the special dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 14th January, 2004.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Results

For the six months ended 30th September, 2003, turnover for the Group increased by 5.0% to HK\$913,876,000 (2002: HK\$870,260,000). Profit attributable to shareholders amounted to HK\$32,715,000 (2002: HK\$25,565,000), representing a growth of 28.0%.

## Business Review

The outbreak of Severe Acute Respiratory Syndrome (“SARS”) in early 2003 brought about a drastic fall in the number of inbound visitors for Hong Kong. Consequently, sales in our “3D-GOLD” Tourism Exhibition Hall were adversely affected during the period, from April to June, 2003. To alleviate the effects of this impact, the Group implemented stringent measures to control the costs and expenditures in all aspects. Following the containment of the SARS outbreak and the removal of Hong Kong from the list of infected areas by the World Health Organization in late June this year; the Tourism Hall recorded a rapid upswing in sales revenue for the months from July to September 2003, in which period turnover even exceeded the pre-SARS level. Tourist sales in the entire period increased as compared to the corresponding period last year. In Mainland China, where the spread of SARS was fortunately limited to only a few areas throughout the country, the impact on our business was minimal. Mainland sales continued on their growing track during the period. Turnover in Mainland China and Hong Kong collectively increased by 4.9% to HK\$782,677,000 (2002: HK\$746,059,000).

Geographically, Mainland China and Hong Kong remained our major market, accounting for 85.6% (2002: 85.7%) of the Group’s turnover. However, the performance of our export market, particularly in the United States, during the period was encouraging. Overseas sales amounted to HK\$131,199,000 (2002: HK\$124,201,000), achieving a growth of 5.6%.

Gross profit margin slightly increased from 17.5% in 2002 to 18.4% in the period under review. This was mainly contributed from an increase of sales in the retail business which have a higher profit margin. With the operation of Phases II and III of “3D-GOLD” Tourism Exhibition Hall this period, the selling and marketing expenses accounted for 7.6% (2002: 6.6%) of total turnover.

Following the disposal of our interest in New Epoch Information (BVI) Company Limited last year, the Group no longer needed to share its result for the current period whereas the Group shared a loss of HK\$6,861,000 with this associate over the same period in 2002.



## Future Prospects

With the signing of the Closer Economic Partnership Arrangement (“CEPA”) between Mainland China and Hong Kong, zero tariffs will be applied on imported jewellery products originating in Hong Kong and destined for the Mainland as of 1st January, 2004. The new policy will definitely enhance our competitive edge in Mainland China. To capture this opportunity, the Group is planning to accelerate the pace of development in the Mainland retail market, under our solid foundation of superior quality, innovative designs and established brand names.

Returning to Hong Kong, inbound tourists have already been restored to the pre-SARS level. Our “3D-GOLD” Tourism Exhibition Hall has reached record high numbers of sales in recent months. With the further relaxation of the “individual travel” scheme, the number of visitors from Mainland China is anticipated to grow substantially. Latest statistics also indicate recovery of the local economy. In November 2003, under all these positive signs and in order to capture additional demands, the Group launched its first “3D-GOLD” retail shop in Hong Kong, located at the Sino Centre in Mongkok. We are also seeking suitable venues to open a second or additional shops. Growth in tourist sales revenue for the Group is expected to increase in parallel with the expansion of the tourism industry in Hong Kong.

## Liquidity and Financial Resources

As of the 30th September, 2003, the Group maintained aggregate banking facilities of HK\$609,641,000 (31st March, 2003: HK\$610,345,000), of which HK\$35,868,000 (31st March, 2003: HK\$26,632,000) had not been utilised. Interest on bank borrowings is charged at commercial lending rates to the Group. Certain assets of the Group have been pledged to banks for these facilities. Cash and bank deposits as of the 30th September, 2003 amounted to HK\$161,814,000 (31st March, 2003: HK\$118,950,000). The Group primarily uses internally-generated cash flow and banking facilities to finance operations and its capital expenditure. Management considers that the Group has sufficient funding for these purposes.

**Liquidity and Financial Resources** *(continued)*

In September 2003, in view of the market conditions favouring raising capital for the further development of our business, while simultaneously broadening our shareholder base, the Company issued 72,470,000 new ordinary shares of HK\$0.10 each pursuant to a top-up placing at a price of HK\$1.31 per share. The placing shares, representing approximately 15% of the then existing issued share capital, were subscribed by institutional investors. The net proceed from the placing of approximately HK\$92 million is intended for use in funding the expansion of retail network, enhancing production capacity in addition to general working capital purposes.

The Group's gearing ratio (ratio of aggregate bank borrowings less cash and bank deposits to equity) as of the 30th September, 2003 was 0.56 (31st March, 2003: 0.81), which was lowered following the placing of shares.

**DIRECTORS' INTERESTS**

As at 30th September, 2003, the interests and short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**(a) The Company**

|                  | Number of shares  |                 |                                |                | Percentage holding of total interest |
|------------------|-------------------|-----------------|--------------------------------|----------------|--------------------------------------|
|                  | Personal Interest | Family Interest | Corporate Interest             | Total Interest |                                      |
| Mr. Lam Sai Wing | 2,032,000         | –               | 167,406,750<br><i>(Note 1)</i> | 169,438,750    | 30.21%                               |

**(b) Associated corporations**

|                        | Name of corporation                 | Number of shares                             |       |
|------------------------|-------------------------------------|--|-------|
|                        |                                     | Personal Interest                            | Total |
| Mr. Lam Sai Wing       | Hang Fung Jewellery Company Limited | 1 Class A (non-voting) ordinary (Note 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 |

*Notes:*

- Quality Prince Limited is a company wholly owned by S.W. Lam, Inc. Mr. Lam Sai Wing, the chairman of the Company, beneficially owns approximately 82% of the shares of S.W. Lam, Inc. Mr. 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, Mr. Lam Sai Wing is deemed to be interested in all shares in the Company held by Quality Prince Limited.
- 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.

**(b) Associated corporations** *(continued)*

Save as disclosed above, as at 30th September, 2003, the register maintained by the Company pursuant to section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies recorded no other interests or short positions of the directors and chief executives of the Company in any shares, underlying shares or debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO).

**SUBSTANTIAL SHAREHOLDERS' INTERESTS**

As at 30th September, 2003, the interests and short positions of every person, other than a director or chief executive of the Company, in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO were as follows:

| <b>Name</b>  | <b>Number of shares</b> | <b>Percentage holding</b> |
|--|-------------------------|---------------------------|
| Good Day Holdings Limited <i>(Note 1)</i>                      | 167,406,750             | 29.85%                    |
| S.W. Lam, Inc. <i>(Note 1)</i>                                 | 167,406,750             | 29.85%                    |
| Quality Prince Limited <i>(Note 1)</i>                         | 167,406,750             | 29.85%                    |
| Phenomenal Limited   | 68,843,250              | 12.28%                    |
| Mr. Fok Chun Yue, Benjamin <i>(Note 2)</i>                     | 33,154,520              | 5.91%                     |
| New Epoch Holdings Development Company Limited <i>(Note 2)</i> | 33,154,520              | 5.91%                     |

*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 Development Company Limited, a company incorporated in the British Virgin Islands.

### **SUBSTANTIAL SHAREHOLDERS' INTERESTS** *(continued)*

Save as disclosed above, as at 30th September, 2003, the register maintained by the Company pursuant to section 336 of the SFO recorded no other interests or short positions in shares and underlying shares of the Company.

### **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES**

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30th September, 2003.

### **AUDIT COMMITTEE**

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed auditing, internal control and financial reporting matters including the review of the interim report for the six months ended 30th September, 2003.

### **CODE OF BEST PRACTICE**

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 to the Listing Rules throughout the six months ended 30th September, 2003, 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 By-Laws.

### **PUBLICATION OF INFORMATION ON THE WEBSITE OF THE STOCK EXCHANGE**

All the information required by paragraphs 46(1) to 46(6) of Appendix 16 to the Listing Rules will be published on the website of the Stock Exchange in due course.

By Order of the Board  
**Lam Sai Wing**  
*Chairman*

Hong Kong, 16th December, 2003