

## Report of the Directors

The directors would like to present their report together with the audited accounts for the year ended 31st March, 2004.

### PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of the subsidiaries are set out in note 13 to the accounts.

An analysis of the Group's performance for the year, which arose mainly in Hong Kong, by business segments is set out in note 2 to the accounts.

### RESULTS AND APPROPRIATIONS

The results for the year are set out in the consolidated profit and loss account on page 17.

The directors do not declare any interim dividend.

The directors recommend the payment of a final dividend of HK0.5 cent per ordinary share, totalling HK\$2,175,000.

### RESERVES

Movements in the reserves during the year of the Group and the Company are set out in the consolidated statement of changes in equity on page 20 and note 22 to the accounts respectively.

### DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st March, 2004, calculated in accordance with section 79B of the Hong Kong Companies Ordinance, amounted to HK\$177,760,000 (2003: HK\$173,411,000).

### FIXED ASSETS

Details of the movements in fixed assets are set out in note 12 to the accounts.

### FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 47.

## Report of the Directors (Continued)

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

#### Purchases

— the largest supplier	22%
— five largest suppliers combined	60%

#### Sales

— the largest customer	3%
— five largest customers combined	5%

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 an interest in the major suppliers or customers noted above.

### DIRECTORS

The directors during the year and up to the date of this report are:

Mr. Yeung Ping Leung, Howard  
 Mr. Tang Yat Sun, Richard  
 Mr. Cheng Kwai Yin  
 Dr. Ho Tim  
 Dr. Sin Wai Kin  
 Mr. Cheng Ka On, Dominic  
 Mr. Yeung Bing Kwong, Kenneth  
 Ms. Fung Chung Yee, Caroline  
 Mr. Lau To Yee  
 Mr. Cheng Kar Shing, Peter  
 Mr. Wong Wei Ping, Martin  
 Mr. Ho Hau Hay, Hamilton (*appointed on 9th July, 2004*)  
 Mr. Chan Chak Cheung, William (*appointed on 9th July, 2004*)

Brief biographical details of the directors are set out on pages 3 and 4.

In accordance with Article 116 of the Company's Articles of Association, Mr. Cheng Kwai Yin, Dr. Ho Tim, Dr. Sin Wai Kin and Mr. Yeung Ping Leung, Howard retire by rotation at the forthcoming annual general meeting of the Company. Mr. Cheng Kwai Yin, Dr. Sin Wai Kin and Mr. Yeung Ping Leung, Howard, being eligible, offer themselves for re-election. Dr. Ho Tim has informed the board that he intends to retire and will not seek re-election.

In accordance with Article 99 of the Company's Articles of Association, Messrs. Chan Chak Cheung, William and Ho Hau Hay, Hamilton retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

## Report of the Directors (Continued)

### DIRECTORS (Continued)

The independent non-executive directors during the year and up to the date of this report are Messrs. Cheng Kwai Yin, Lau To Yee, Cheng Kar Shing, Peter and Chan Chak Cheung, William. They are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting in accordance with the Articles of Association of the Company.

The Company confirms that it has received letters of confirmation of independence from all of the independent non-executive directors and considers that the independent non-executive directors are independent.

None of the directors has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' INTERESTS

At 31st March, 2004, the interests of the directors and chief executive of the Company in the share capital of the Company as recorded in the register maintained by the Company under section 352 of Part XV of the Securities and Futures Ordinance (the "SFO") or as notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

	Number of ordinary shares held			Total	Percentage of shareholding
	Personal	Family	Corporate		
Mr. Tang Yat Sun, Richard	3,585,000	Nil	Nil	3,585,000	0.82%
Mr. Cheng Kwai Yin	2,224,000	Nil	Nil	2,224,000	0.51%
Dr. Sin Wai Kin	1,792,500	Nil	Nil	1,792,500	0.41%
Mr. Cheng Ka On, Dominic	4,020,000	15,000	Nil	4,035,000	0.93%

At no time during the year, the directors and chief executive (including their spouse and children under 18 years of age) had any interest in, or had been granted, or exercised, any rights to subscribe for shares of the Company and its associated corporations (within the meaning of the SFO).

At no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors and chief executive of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporations (within the meaning of the SFO).

Save as disclosed above, as at 31st March, 2004, none of the directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) as recorded in the register required to be kept under section 352 of Part XV 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.

Save as disclosed below, no other contracts of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## Report of the Directors (Continued)

### DIRECTORS' INTERESTS (Continued)

During the year the contracts in which the Group was a party subsisted are as follows:

1. (a) The premises occupied by the Group in King Fook Building, Des Voeux Road Central, Hong Kong are leased on normal commercial terms from Stanwick Properties Limited, which is a wholly owned subsidiary of Yeung Chi Shing Estates Limited, a substantial shareholder of the Company.

The Group entered into six tenancy agreements (the "King Fook Leases") with Stanwick Properties Limited on 21st August, 2003 in respect of the premises in King Fook Building, Hong Kong. The leased properties are used as the key retail outlet and the headquarters of the Group.

Major terms of the King Fook Leases are as follows:

*Basement, Ground Floor and Mezzanine Floor, King Fook Building*

<b>Tenant</b>	<b>Term</b>	<b>Rent per month</b>
King Fook Jewellery Group Limited	2 years from 16/8/03 to 15/8/05	HK\$372,000

*3rd Floor, King Fook Building*

<b>Tenant</b>	<b>Term</b>	<b>Rent per month</b>
the Company	2 years from 16/8/03 to 15/8/05	HK\$19,000

*5th Floor, King Fook Building*

<b>Tenant</b>	<b>Term</b>	<b>Rent per month</b>
the Company	2 years from 16/8/03 to 15/8/05	HK\$19,000

*8th Floor, King Fook Building*

<b>Tenant</b>	<b>Term</b>	<b>Rent per month</b>
King Fook Securities Company Limited	2 years from 16/8/03 to 15/8/05	HK\$19,000

*9th Floor, King Fook Building*

<b>Tenant</b>	<b>Term</b>	<b>Rent per month</b>
the Company	2 years from 16/8/03 to 15/8/05	HK\$19,000

*10th Floor, King Fook Building*

<b>Tenant</b>	<b>Term</b>	<b>Rent per month</b>
Young's Diamond Corporation (International) Limited	2 years from 16/8/03 to 15/8/05	HK\$19,000

- (b) The Company has also entered into a licence agreement (the "Licence Agreement") with Yeung Chi Shing Estates Limited pursuant to which the Company was granted an exclusive right for the design, manufacture and distribution of gold and jewellery products under the trademark of "King Fook" on a worldwide basis for a total consideration of HK\$1. The contract commenced from 7th December, 1998 and does not fix the termination date.

Mr. Yeung Ping Leung, Howard and Mr. Yeung Bing Kwong, Kenneth, directors of the Company, together with other members of their family control the management of Yeung Chi Shing Estates Limited.

## Report of the Directors (Continued)

### DIRECTORS' INTERESTS (Continued)

2. King Fook Jewellery Group Limited (a wholly owned subsidiary of the Company) occupies shop premises on the ground and first floors of the Miramar Hotel which are leased from Contender Limited, a wholly owned subsidiary of Miramar Hotel and Investment Company, Limited (a substantial shareholder of the Company), on normal commercial terms. Mr. Tang Yat Sun, Richard, Dr. Ho Tim, Dr. Sin Wai Kin and Mr. Cheng Ka On, Dominic are directors and shareholders of Miramar Hotel and Investment Company, Limited. Mr. Yeung Ping Leung, Howard is a director of Miramar Hotel and Investment Company, Limited.

King Fook Jewellery Group Limited entered into a tenancy agreement (the "Miramar Lease") with Contender Limited on 28th April, 2004 pursuant to an offer letter dated 15th July, 2003 in respect of shop units G1-2 and G1A on ground floor and shop units AR201-02 and AR217 on first floor of Hotel Miramar Shopping Arcade, Kowloon, Hong Kong. The leased shops are the key retail outlet of the Group.

Major terms of the Miramar Lease are as follows:

<b>Term</b>	<b>Rent per month</b>
3 years from 16/7/03 to 15/7/06	HK\$897,290

3. The Company has entered into a consultation service agreement with Verbal Company Limited ("Verbal"), whereby Verbal provides the services of Mr. Yeung Ping Leung, Howard to the Group for the year ended 31st March, 2004 at fees totalling HK\$1,530,000. Mr. Yeung Ping Leung, Howard and Mr. Tang Yat Sun, Richard are directors of Verbal and Mr. Yeung Ping Leung, Howard has a beneficial interest in Verbal.
4. The Group has borrowed an unsecured short term loan of HK\$15,000,000 from a director of the Company during the year. The loan is repayable on demand. Interest was charged on the loan at 1.5% per annum.
5. During the year, Evermind Limited ("Evermind"), a 80% subsidiary of the Company, acquired the entire issued share capital of Perfectrade Limited from a director (also a shareholder) of Evermind at the price of HK\$1.
6. During the year, Evermind acquired 75% of the issued shares in the capital of Mempro Limited from a director of the Company at the price of HK\$1.

The above transactions constituted connected transactions as defined under chapter 14A of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Details of these transactions and other related party transactions are set out in note 28 to the accounts.

The independent non-executive directors of the Company have reviewed the continuing connected transactions under the King Fook Leases, the Licence Agreement and the Miramar Lease as stated in 1 and 2 above pursuant to rule 14A.37 of the Listing Rules and confirmed that the transactions have been entered into:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

## Report of the Directors (Continued)

### DIRECTORS' INTERESTS (Continued)

The auditors of the Company have reviewed the continuing connected transactions under the King Fook Leases, the Licence Agreement and the Miramar Lease as stated in 1 and 2 above pursuant to rule 14A.38 of the Listing Rules and advised the board of directors in writing with a copy provided to the Stock Exchange that:

- (1) the transactions have received the approval of the board of directors of the Company;
- (2) the transactions have been entered into in accordance with the relevant agreements governing the transactions; and
- (3) the transactions have not exceeded the caps disclosed in previous announcements (except the transaction as stated in 1(b) above where no cap is available).

### DIRECTORS' INTERESTS IN COMPETING BUSINESS

Set out below is information disclosed pursuant to rule 8.10 of the Listing Rules:

Mr. Cheng Kar Shing, Peter, an independent non-executive director of the Company, is a director of Chow Tai Fook Jewellery Co. Ltd. ("Chow Tai Fook"). The gold ornament, jewellery and watch retailing business of Chow Tai Fook may compete with similar business of the Group.

Dr. Sin Wai Kin is the chairman of Myer Jewelry Manufacturer Limited. The trading of fine and costume jewellery business of Myer Jewelry Manufacturer Limited and its subsidiaries ("Myer Group") may compete with similar business of the Group.

Mr. Tang Yat Sun, Richard is a director of Hang Seng Bank Limited ("Hang Seng"). The bullion trading, securities broking and money changer business of Hang Seng may compete with similar business of the Group.

The Group has experienced senior management independent of the above-named directors to conduct its business and is therefore capable of carrying on its business independently of and at arm's length from the respective businesses of Chow Tai Fook, Myer Group and Hang Seng.

### BANK LOANS, OVERDRAFTS AND OTHER BORROWINGS

Particulars of bank loans, overdrafts and other borrowings of the Group are set out under current liabilities of the consolidated balance sheet and note 23 to the accounts.

### SUBSTANTIAL SHAREHOLDERS

At 31st March, 2004, the following persons (other than a director or chief executive of the Company) had interests, being 5% or more of the issued share capital of the Company, as recorded in the register of substantial shareholders required to be kept by the Company under section 336 of the SFO:

Name of shareholder	Number of ordinary shares held	Nature of interest	Percentage of shareholding
Yeung Chi Shing Estates Limited	193,145,055	Note (a)	44.39%
Miramar Hotel and Investment Company, Limited	59,416,000	Note (b)	13.66%
Miramar Hotel and Investment (Express) Limited	22,790,000	Beneficial owner	5.24%

Notes:

- (a) 186,985,035 shares are beneficially owned by Yeung Chi Shing Estates Limited while 6,160,020 shares are of its corporate interest.
- (b) 28,122,000 shares are beneficially owned by Miramar Hotel and Investment Company, Limited while 31,294,000 shares are of its corporate interest.

## Report of the Directors (Continued)

### **SUBSTANTIAL SHAREHOLDERS** (Continued)

Save as disclosed herein, as at 31st March, 2004, according to the register of interests required to be kept by the Company under section 336 of the SFO, there was no person who had any interest or short position in the shares or underlying shares of the Company.

### **PURCHASE, SALE OR REDEMPTION OF SHARES**

The Company had not redeemed any of its shares during the year.

Neither the Company nor any of its subsidiaries had purchased or sold any of the Company's shares during the year.

### **MANAGEMENT CONTRACTS**

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

### **COMPLIANCE WITH THE CODE OF BEST PRACTICE OF THE LISTING RULES**

During the year, the Company was in compliance with the Code of Best Practice as set out in appendix 14 of the Listing Rules except that:

1. the directors have not established an audit committee to review and supervise the Group's financial reporting process and internal controls; and
2. the independent non-executive directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at annual general meeting of the Company in accordance with the Company's Articles of Association.

The Company will establish an audit committee in compliance with rule 3.21 and 3.22 of the Listing Rules.

### **AUDITORS**

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

On behalf of the Board

**Yeung Ping Leung, Howard**  
*Chairman*

Hong Kong, 9th July, 2004