

# Directors' Report

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 2004.

## **PRINCIPAL ACTIVITIES AND SEGMENT ANALYSIS OF OPERATIONS**

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

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 30 to the accounts.

## **CUSTOMERS AND SUPPLIERS**

For the year ended 31st March 2004, the five largest customers of the Group accounted for approximately 10.9% (2003: 8.3%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 79.4% (2003: 86.4%) of the Group's total purchases. The largest customer of the Group accounted for approximately 2.4% (2003: 2.0%) of the Group's total turnover while the largest supplier accounted for approximately 48.4% (2003: 67.2%) 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 2004 are set out in the consolidated profit and loss account on page 29. An interim dividend of HK1.2 cents (2003: Nil) per share and a special dividend of HK0.8 cent (2003: Nil) per share were paid on 6th February 2004. The Directors proposed a final dividend of HK0.6 cent (2003: Nil) per share. Total dividends paid and declared for the year ended 31st March 2004 amounted to HK\$14,581,000. The Directors recommend that the retained profit of HK\$491,020,000 (2003: HK\$443,822,000) as at 31st March 2004 be carried forward.

## **SHARE CAPITAL**

Details of movements in share capital of the Company are set out in Note 26 to the accounts.

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## **RESERVES**

Movements in reserves of the Group and the Company during the year are set out in Note 28 to the accounts.

As at 31st March 2004, the Company had reserves of approximately HK\$239,528,000 available for distribution to shareholders (2003: HK\$244,669,000).

## **DONATIONS**

Charitable and other donations made by the Group during the year amounted to HK\$1,299,000

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed shares during the year ended 31st March 2004.

## **PRE-EMPTIVE RIGHTS**

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

## **FINANCIAL SUMMARY**

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

## **FIXED ASSETS AND INVESTMENT PROPERTY**

Details of movements in fixed assets and investment property during the year are set out in Notes 12 and 13, respectively, to the accounts.

## **SUBSIDIARIES AND ASSOCIATES**

Particulars of the Company's subsidiaries and associates are set out in Notes 14 and 15, respectively, to the accounts.

## **BANK LOANS AND OVERDRAFTS**

Particulars of bank loans and overdrafts as at 31st March 2004 are set out in Notes 20, 21 and 34, respectively, to the accounts.

## **PENSION SCHEMES**

Details of the pension schemes are set out in Note 33 to the accounts.

# 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, Mr. Lee Kok Keung will retire from office and, being eligible, offer himself 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

As at 31st March 2004, 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) Long positions in the Company

	Number of shares				Percentage holding of total interest	Number of share options
	Personal Interest	Family Interest	Corporate Interest	Total Interest		
Dr. Lam Sai Wing	2,032,000	-	167,406,750 (Note 1)	169,438,750	30.21%	3,160,000 (Note 2)
Ms. Chan Yam Fai, Jane	-	-	-	-	-	3,160,000 (Note 2)

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## DIRECTORS' INTERESTS (continued)

### (b) Long positions in associated corporations

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

#### Notes:

- 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.
- The interests of the directors in the share options of the Company are separately disclosed in the section headed "Share Options" below.
- Class A (non-voting) ordinary shares have no voting rights, are not entitled to dividends unless dividends paid to holders of Class B (voting) ordinary shares exceed HK\$900,000,000,000 in each financial year, and are not entitled to distribution of the company's assets unless each Class B (voting) ordinary shareholder has been returned its paid up capital together with a premium of HK\$900,000,000,000. The Class B (voting) ordinary shares have voting rights and are entitled to dividends and distribution of the company's assets.

Save as disclosed above, as at 31st March 2004, 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).

# Directors' Report

## 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.

### 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 2004, the total number of shares which might be issued on the exercise of the outstanding options granted under the Old Scheme was 47,300,000 shares, representing 8.4% 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 summarized 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.

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## SHARE OPTIONS (continued)

### b. New Scheme (continued)

#### (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.

#### (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 53,906,400 shares, after adjusting for the effect of the share consolidation described in Note 26 to the accounts, 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.

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## **SHARE OPTIONS** (continued)

### **b. New Scheme** (continued)

#### *(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.

#### *(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.

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## SHARE OPTIONS (continued)

### c. Movements of share options

Movements of share options, after adjusting for the effect of the share consolidation described in Note 26 to the accounts, during the year ended 31st March 2004 are:

Participant	Date of grant	Exercise period	Exercise price	Number of share options			
				Beginning of year	Granted	Exercised	End of year
					during the year	during the year	
				'000	'000	'000	'000
<i>Old Scheme</i>							
<b>Employees</b>	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>							
<b>Directors</b>							
Dr. Lam Sai Wing	19th December 2003	19th December 2003 to 27th August 2012	HK\$1.58	-	3,160	-	3,160
Ms. Chan Yam Fai, Jane	19th December 2003	19th December 2003 to 27th August 2012	HK\$1.58	-	3,160	-	3,160
<b>Employees</b>	19th February 2003	31st July 2003 to 27th August 2012	HK\$0.86	26,953	-	(19,260)	7,693
				74,253	6,320	(19,260)	61,313

#### Notes:

1. The closing price of the Company's shares immediately before the date of grant of options on 19th December 2003 were HK\$1.56.
2. The weighted average closing price of the shares immediately before the dates on which the options were exercised during the year was HK\$1.24.
3. No options were cancelled or lapsed during the year ended 31st March 2004.

### 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.



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## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

## DIRECTORS' INTERESTS IN CONTRACTS

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

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31st March 2004, 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:

Name	Long positions	
	Number of shares	Percentage holding
Good Day Holdings Limited ( <i>Note</i> )	167,406,750	29.85%
S.W. Lam, Inc. ( <i>Note</i> )	167,406,750	29.85%
Quality Prince Limited ( <i>Note</i> )	167,406,750	29.85%
Phenomenal Limited	68,843,250	12.28%

*Note:* 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.

Save as disclosed above, as at 31st March 2004, 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.

## MANAGEMENT CONTRACTS

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

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## **DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES**

Hang Fung Jewellery Company Limited, a wholly-owned subsidiary of the Company, entered into a facility agreement (the "Facility Agreement") dated 30th June 2004 with financial institutions not connected with the directors, chief executive, substantial shareholders of the Company or its subsidiaries or any of their respective associates, in respect of a loan facility of up to a principal amount of HK\$300,000,000 for a term of three years. Its obligations under the Facility Agreement are guaranteed by the Company.

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

## **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 35 to the accounts.

## **AUDITORS**

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

On behalf of the Board of Directors,

## **LAM SAI WING**

*Chairman*

Hong Kong, 22nd July 2004