

# 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 2005.

## 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 geographical segments is set out in Note 2 to the accounts.

## CUSTOMERS AND SUPPLIERS

For the year ended 31st March 2005, the five largest customers of the Group accounted for approximately 6.8% (2004: 10.9%) of the Group's total turnover and the five largest suppliers of the Group accounted for approximately 80.2% (2004: 79.4%) of the Group's total purchases. The largest customer of the Group accounted for approximately 1.6% (2004: 2.4%) of the Group's total turnover while the largest supplier accounted for approximately 43.0% (2004: 48.4%) 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 2005 are set out in the consolidated profit and loss account on page 27. The Directors declared a final dividend of HK2.8 cents per share and a special dividend of HK1.0 cent per share, totalling HK\$3.8 cents per share, which will be satisfied by allotment of new shares of the Company, by way of scrip dividend, with an alternative to shareholders to elect to receive such final dividend and special dividend (or part thereof) in cash in lieu of such allotment. Total dividends declared for the year ended 31st March 2005 amounted to HK\$28,558,000. The Directors recommend that the retained profit of HK\$569,098,000 (2004: HK\$491,020,000) as at 31st March 2005 be carried forward.

## SHARE CAPITAL

Details of movements in share capital of the Company are set out in Note 24 to the accounts.

## RESERVES

Movements in reserves of the Group and the Company during the year are set out in Note 26 to the accounts.

As at 31st March 2005, the Company had reserves of approximately HK\$264,601,000 (2004: HK\$239,528,000) available for distribution to shareholders.

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$62,000.

# Directors' Report

## 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 2005.

## 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 11 and 12, respectively, to the accounts.

## SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in Note 13 to the accounts.

## BANK LOANS AND OVERDRAFTS

Particulars of bank loans and overdrafts as at 31st March 2005 are set out in Notes 18, 19 and 31, respectively, to the accounts.

## PENSION SCHEME

Details of the pension scheme are set out in Note 30 to the accounts.

## CONNECTED TRANSACTIONS

During the year ended 31st March, 2005 and up to the date of this report, the Group entered into the following transactions, which constituted connected transactions and continuing connected transactions under the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and are required to be disclosed in accordance with Chapter 14A of the Listing Rules:

1. On 6th September 2004, (i) Hang Fung Jewellery Company Limited ("Hang Fung") entered into a tenancy agreement with Sky Rich Enterprises Limited ("Sky Rich") to lease the premises located at Units J, K and L, Ground Floor, Kaiser Estate Phase II, Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street, Hung Hom, Kowloon, Hong Kong ("Kaiser Estate Premises") for a term commencing from 6th September 2004 to 30th November 2005 at a rental of HK\$1,226,556 per annum (the "Tenancy Agreement"); and (ii) Hang Fung and Kai Hang Jewellery Company Limited ("Kai Hang") as licensees entered into certain license agreements with Sky Rich as licensor in relation to the right to use part of the external walls of the building of which Kaiser Estate Premises form part for a term commencing from 6th September 2004 to 5th September 2005 at an aggregate licence fee of HK\$360,000 per annum (the "Licence Agreements"). Both Hang Fung and Kai Hang are wholly-owned subsidiaries of the Company, while Sky Rich is wholly-owned by Dr. Lam Sai Wing and Ms. Chan Yam Fai, Jane and accordingly is a connected person (as defined in the Listing Rules) of the Company. Hence, the Tenancy Agreement and the Licence Agreements constitute continuing connected transactions of the Company under the Listing Rules. Please refer to the announcement of the Company dated 7th September 2004 for details of these transactions.

# Directors' Report

## CONNECTED TRANSACTIONS (continued)

2. On 30th September 2004, each of Hang Fung and Kai Hang entered into a sale and purchase memoranda with Glory Hill Limited ("Glory Hill") and Skyman Limited ("Skyman"), both of which are wholly-owned by Dr. Lam Sai Wing, respectively, pursuant to which Hang Fung and Kai Hang agreed to sell and Glory Hill and Skyman agreed to purchase the properties (the "Disposal") situated at (i) Unit A on Ground Floor and Private Car Parking Space No. 18 on the Basement, Winner Building, Nos. 32, 32A and 34-40 Man Yue Street, Nos. 25-37 Tai Wan Road, Hunghom, Kowloon; and (ii) Units H and K and Flat Roof K on 2nd Floor and Private Car Parking Space Nos. G17, G19 and G21 on Ground Floor, Kaiser Estate Phase II, Nos. 47-53 Man Yue Street, Nos. 20-28 Man Lok Street, Hunghom, Kowloon (the "Properties"). The Group agreed to dispose of the Properties at an aggregate consideration of HK\$15 million and, conditional upon completion of the sale and purchase taking place, to lease the Properties back for a period of three years at a total annual rental of HK\$1.98 million (the "Leasing"). As Glory Hill and Skyman are wholly-owned by Dr. Lam Sai Wing, they are connected persons (as defined in the Listing Rules) of the Company. Accordingly, the Disposal and the Leasing constitute to a connected transaction and a continuing connected transaction respectively of the Company under the Listing Rules. Please refer to the announcement of the Company dated 5th October 2004 for details of these transactions.
3. On 1st June 2005, Hang Fung entered into two tenancy agreements with Sky Rich to lease the premises located at (i) Units A, B & C on Upper Part of 3rd Floor, Gemstar Tower, No. 23 Man Lok Street, Hunghom, Kowloon, Hong Kong; and (ii) Unit G on 1st Floor, Kaiser Estate Phase II, Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street, Hunghom, Kowloon, Hong Kong for a term of 3 years commencing from 1st June 2005 at an aggregate rental of HK\$1,500,000 per annum. The tenancy agreements constitute continuing connected transactions of the Company under the Listing Rules. Please refer to the announcement of the Company dated 3rd June 2005 for details of these transactions.

## 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. Lee Kok Keung

Mr. Liu Ngai Wing

Dr. Lui Sun Wing (appointed on 9th May 2005)

Mr. Lou Ping Ho (appointed on 28th September 2004)

In accordance with the Bye-laws of the Company, Mr. Wong Kwong Chi, Dr. Lui Sun Wing and Mr. Lou Ping Ho will retire from office and, being eligible, offer themselves for re-election. All other remaining directors continue in office.

# Directors' Report

## DIRECTORS AND DIRECTORS' SERVICE CONTRACTS (continued)

Dr. Lam Sai Wing and Ms. Chan Yam Fai, Jane each entered into a service contract with the Company for a term of two and a half years commencing from 1st October 2004. 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 2005, the interests or short positions of each director and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such directors and chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") 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 (Note 2)	30.21% (Note 2)	3,160,000 (Note 3)
Ms. Chan Yam Fai, Jane	–	–	–	–	–	3,160,000 (Note 3)

### (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 4)	1
	Kai Hang Jewellery Company Limited	8,000 Class A (non-voting) ordinary (Note 4)	8,000
Ms. Chan Yam Fai, Jane	Hang Fung Jewellery Company Limited	1 Class A (non-voting) ordinary (Note 4)	1
	Kai Hang Jewellery Company Limited	2,000 Class A (non-voting) ordinary (Note 4)	2,000

# Directors' Report

## DIRECTORS' INTERESTS (continued)

*Notes:*

1. Quality Prince Limited is a company wholly-owned by S.W. Lam, Inc., a company in which Dr. Lam Sai Wing holds an approximately 82% interest through Good Day Holdings Limited, a company wholly-owned by Dr. Lam Sai Wing. Accordingly, Dr. Lam Sai Wing is deemed to be interested in all shares in the Company held by Quality Prince Limited.
2. Pursuant to an underwriting agreement dated 4th February 2005 (the "Underwriting Agreement") entered into between the Company, Allglobe Holdings Limited and Dr. Lam Sai Wing in relation to the underwriting of the rights shares under the rights issue (the "Rights Issue") of the Company announced in February 2005, Dr. Lam Sai Wing has a long position in a total 186,931,333 shares of the Company by virtue of the SFO, representing approximately 33.33% of the issued share capital of the Company as at 31st March 2005 and approximately 25.00% of the issued share capital of the Company as enlarged by the Rights Issue.
3. The interests of the directors in the share options of the Company are separately disclosed in the section headed "Share Options" below.
4. 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 2005, none of the directors and chief executive of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which any such directors and chief executive of the Company was taken or deemed to have under such provisions of the SFO) or which were required to be entered in the register maintained by the Company pursuant to section 352 to the SFO or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

# 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 2005, 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 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.

# Directors' Report

## 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 53,906,400 shares, after adjusting for the effect of the ten-to-one consolidation of shares on 30th April 2003, 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.

#### (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.

#### (ix) *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.

# Directors' Report

## SHARE OPTIONS (continued)

### c. *Movements of share options*

Movements of share options during the year ended 31st March 2005 are:

Participant	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>							
Employees	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
Employees	19th February 2003	31st July 2003 to 27th August 2012	HK\$0.86	7,693	–	–	7,693
				61,313	–	–	61,313

*Note:*

No options were cancelled or lapsed during the year ended 31st March 2005.

### 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' Report

## 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 2005, the following persons (other than the directors or the chief executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares:

Name	Long positions	
	Number of Shares	Percentage holding
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 ( <i>Note 2</i> )	68,843,250	12.28%

### Notes:

- Quality Prince Limited is a company wholly-owned by S.W. Lam, Inc., a company in which Dr. Lam Sai Wing holds an approximately 82% interest through Good Day Holdings Limited, a company wholly-owned by Dr. Lam Sai Wing. Pursuant to the Rights Issue, Quality Prince Limited has a long position in 55,802,250 shares of the Company, representing approximately 7.46% of the issued share capital of the Company as enlarged by the Rights Issue. Hence, S.W. Lam, Inc. and Good Day Holdings Limited are each deemed to have a long position of 7.46% of the issued share capital of the Company as enlarged by the Rights Issue.
- Pursuant to the Rights Issue, Phenomenal Limited has a long position in 22,947,750 shares of the Company, representing approximately 3.07% of the issued share capital of the Company as enlarged by the Rights Issue.
- Pursuant to the Underwriting Agreement, Allglobe Holdings Limited has a long position in 130,451,750 shares of the Company, representing approximately 17.45% of the issued share capital of the Company as enlarged by the Rights Issue. Pursuant to the sub-underwriting agreement dated 4th February 2005 entered into between Allglobe Holdings Limited and Tai Fook Securities Company Limited, Tai Fook Securities Company Limited has a long position in a maximum of 50,109,393 shares of the Company, representing approximately 6.70% of the issued share capital of the Company as enlarged by the Rights Issue. Tai Fook Securities Company Limited is 100% owned by Tai Fook Finance Company Limited which is in turn 100% owned by Tai Fook (BVI) Limited. Tai Fook (BVI) Limited is 100% owned by Tai Fook Securities Group Limited. Hence, Tai Fook Finance Company Limited, Tai Fook (BVI) Limited and Tai Fook Securities Group Limited are each deemed to have a long position of a maximum of 6.70% of the issued share capital of the Company as enlarged by the Rights Issue.

# Directors' Report

## SUBSTANTIAL SHAREHOLDERS' INTERESTS (continued)

Save as disclosed above, the directors or the chief executive of the Company are not aware of any person (other than a director or chief executive of the Company) who, as at 31st March 2005, had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any options in respect of such shares.

## 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.

## DISCLOSURE PURSUANT TO RULES 13.18 & 13.21 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

The audit committee was established with written terms of reference in accordance with the requirements of the Listing Rules, comprising one non-executive director and four independent non-executive directors of the Company. The principal duties of the committee include the review and supervision of the Group's financial reporting process and internal control systems. The audit committee has reviewed the audited accounts of the Group for the year ended 31st March 2005.

## 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 which was in force prior to 1st January 2005 throughout the year ended 31st March 2005, 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.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding Directors' securities transactions. All Directors have confirmed, following specific enquiry by the Company, that they have complied with the required standard set out in the Model Code during the period covered by the annual report.

# Directors' Report

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received, from each of the independent non-executive directors of the Company, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

## SUBSEQUENT EVENT

Details of the significant subsequent event of the Group are set out in Note 33 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, 21st July 2005