

# Report of the Directors

---

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 30th April, 2001.

## PRINCIPAL ACTIVITIES

The principal activities of the Group have not changed during the year and consisted of refining, moulding, wholesaling and trading of gold bullion, the provision of loans and gold bullion financing, wholesaling and retailing of gold ornaments, diamonds and other jewellery products, and provision of internet-based electronic trading system to facilitate trading of precious metals, internet content provider and related operations.

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in note 40 to the financial statements.

## SEGMENTAL INFORMATION

An analysis of the Group's turnover and contribution to profit from operating activities for the year ended 30th April, 2001 by principal activity and geographical area of operations is set out in notes 5 to 6 to the financial statements, respectively.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 30th April, 2001 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 20 to 72.

A preference dividend of HK\$1,270,000 was paid to preference shareholders during the year ended 30th April, 2001. There was no preference dividend outstanding as at 30th April, 2001 upon full conversion of the preference shares on 30th August, 2000.

In addition to the foregoing, a special specie dividend of 137,682,480 shares of HK\$0.01 each in Trasy Gold was distributed during the year to the Company's shareholders on the basis of one Trasy share for every ten ordinary shares in the Company held by the Company's shareholder. Trasy Gold, whose shares were listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited ("GEM") on 7th December, 2000 pursuant to the Group's spin-off of its business in the provision of internet-based electronic trading system to facilitate trading of precious metals, internet content provider and related operations, was formerly a wholly-owned subsidiary of the Company. As a result of the new listing of Trasy Gold shares and related arrangements in connection therewith, as described in note 1 to the financial statements, the Company's shareholdings in Trasy Gold was diluted to approximately 58.46% as at 30th April, 2001.

The Directors do not recommend the payment of a final dividend on the Company's ordinary shares in respect of the year.

## SUMMARY FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and restated as appropriate, is set out on page 73. This summary does not form part of the audited financial statements.

## FIXED ASSETS AND INVESTMENT PROPERTIES

Details of movements in the fixed assets and investment properties of the Company and the Group are set out in note 13 to the financial statements.

# Report of the Directors *(Continued)*

---

## **PRINCIPAL PROPERTIES**

Details of the principal properties of the Group are set out on the page 74.

## **SUBSIDIARIES**

Particulars of the Company's principal subsidiaries are set out in note 40 to the financial statements.

## **A JOINTLY CONTROLLED ENTITY AND ASSOCIATES**

Particulars of a jointly controlled entity and principal associates of the Group are set out in notes 15 and 41 to the financial statements, respectively.

## **CONVERTIBLE NOTES, PROMISSORY NOTES, BANK AND OTHER BORROWINGS**

Particulars of the Company's convertible notes and promissory notes as at 30th April, 2001 are set out in notes 29 and 30 to the financial statements, respectively.

Bank and other borrowings repayable within one year or on demand are classified as current liabilities. Particulars of the bank and other borrowings (including current and non-current portions) of the Company and the Group are set out in notes 27 and 28 to the financial statements.

## **SHARE CAPITAL, SHARE PREMIUM AND SHARE OPTIONS**

Details of movements in the Company's share capital, share premium and share options, together with the reasons therefor, are set out in notes 32 and 33 to the financial statements.

## **PRE-EMPTIVE RIGHTS**

There are no provisions for pre-emptive rights under the Company's bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES**

During the year under review, the Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries has purchased or sold any listed securities of the Company.

## **RESERVES**

Details of movements in the reserves of the Company and the Group during the year are set out in note 33 to the financial statements.

## **DISTRIBUTABLE RESERVES**

At 30th April, 2001, the Company had no reserves available for cash distribution and/or distribution in specie to its shareholders, as computed in accordance with the Companies Act 1981 of Bermuda. In addition, the Company's share premium account, with a balance of HK\$899,860,000 as at 30th April, 2001, may be distributed in the form of fully paid bonus shares.

## Report of the Directors *(Continued)*

---

### MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

- (a) The aggregate amount of sales attributable to the Group's five largest customers accounted for approximately 74% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 30%.
- (b) The aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 62% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 24%.

As far as the Directors are aware, neither the Directors of the Company, their associates (as defined in the Rules Governing the Listing of Securities on the Stock Exchange ("Listing Rules")) nor any shareholder of the Company (who, to the best knowledge of the directors, owns more than 5% of the Company's issued share capital) had any beneficial interest in any of the Group's five largest customers or five largest suppliers during the year.

### DIRECTORS

The Directors of the Company during the year were as follows:

#### Executive Directors:

Mr. Chan Fat Chu, Raymond (*Chairman*)  
Mr. Chan Fat Leung, Alexander (*Deputy Chairman*)  
Mr. Lo Chi Kin, Andie  
Mr. Tsui Muk Ming, Danny  
Mr. Sit Chun Sze  
Mr. Yi Zhenqiu

#### Non-executive Directors:

Dato Ahmad Fuad HAJI MD ALI  
Dato Anuar OTHMAN (*alternate to Dato Ahmad Fuad HAJI MD ALI*)

#### Independent non-executive Directors:

Mr. Sze Tsai To, Robert (*resigned on 2nd April, 2001*)  
Mr. John Cameron Broadley

Subsequent to the balance sheet date, the following changes in Directors took place:

- (i) On 10th May, 2001, Mr. John Cameron Broadley resigned as an independent non-executive Director;
- (ii) On 10th May, 2001, Mr. Wong Tak Wah, Daniel and Mr. Ma Kwok Keung were appointed as independent non-executive Directors;
- (iii) On 8th August, 2001, Mr. Yi Zhenqiu resigned as an executive Director;

## Report of the Directors *(Continued)*

---

### **DIRECTORS** *(Continued)*

- (iv) On 31st August, 2001, Mr. Yang Yongsheng was appointed as an executive Director;
- (v) On 17th January, 2002, Mr. Yang Yongsheng resigned as an executive Director; and
- (vi) On 28th January, 2002, Dato Anuar OTHMAN resigned as an alternate Director to Dato Ahmad Fuad HAJI MD ALI, non-executive Director.

In accordance with bye-law numbered 86 (2) of the Company's bye-laws, Messrs Ma Kwok Keung, Wong Tak Wah, Daniel and Yang Yongsheng, being the Directors appointed after the 2000 annual general meeting, were retired at the 2001 annual general meeting which was held on 31st December, 2001 ("2001 AGM") and, had been re-elected as Directors at the 2001 AGM.

In accordance with bye-law numbered 87 of the Company's bye-laws, Dato Ahmad Fuad HAJI MD ALI was retired by rotation and had been re-elected as Director at the 2001 AGM.

### **DIRECTORS' BIOGRAPHIES**

Biographical details of the Directors are set out on pages 75 to 76 of this annual report.

### **DIRECTORS' SERVICE CONTRACTS**

Mr. Sit Chun Sze entered into a service contract with Trasy Gold for a term of three years commencing on 23rd March, 2000 with an annual salary of HK\$960,000. Mr. Sit is also entitled to a bonus share scheme of Trasy Gold.

Mr. Chan Fat Chu, Raymond entered into two respective service contracts with each of the Company and Hing Fung Goldsmith And Refinery Limited ("HFGR"), a wholly-owned subsidiary of the Company, on 31st March, 2001 for a term of two years commencing on 1st April, 2001 with a total remuneration of HK\$12,000,000 per annum plus a bonus payable at the discretion of the Company and HFGR.

Mr. Chan Fat Leung, Alexander entered into two respective service contracts with each of the Company and HFGR on 31st March, 2001 for a term of two years commencing 1st April, 2001 with a total remuneration of HK\$12,000,000 per annum plus a bonus payable at the discretion of the Company and HFGR.

Save as disclosed above and as at 30th April, 2001, no director has a service contract with the Company or any of its subsidiaries which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than statutory compensation.

### **EMOLUMENTS OF DIRECTORS AND THE FIVE HIGHEST PAID EMPLOYEES**

Details of the Directors' emoluments and those of the five highest paid employees in the Group are set out in note 7 to the financial statements.

## Report of the Directors *(Continued)*

### DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES

As at 30th April, 2001, the interests of the Directors of the Company or their associates in the equity or debt securities of the Company or its associated corporation (within the meaning of the Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) which have been notified to the Company and the Stock Exchange pursuant to section 28 of the SDI Ordinance (including interests which they were deemed or taken to have under section 31 or Part 1 of the Schedule to the SDI Ordinance) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies or which were required, pursuant to section 29 of the SDI Ordinance, to be recorded in the register referred to therein were as follows:

**(a) The Company:**

Name	Number of ordinary shares of HK\$0.10 each and nature of interest		
	Personal Interests	Corporate Interests	Total Interests
Mr. Chan Fat Chu, Raymond	1,912,500 (Note 1)	1,017,500 (Note 3)	2,930,000
Mr. Chan Fat Leung, Alexander	1,912,500 (Note 2)	1,017,500 (Note 3)	2,930,000
Mr. Lo Chi Kin, Andie	1,000,800	–	1,000,800
Mr. Tsui Muk Ming, Danny	1,000,040	–	1,000,040
Mr. John Cameron Broadley	2,000,000	–	2,000,000

**(b) Associated Corporation:**

*Trasy Gold*

Name	Number of ordinary shares of HK\$0.01 each and nature of interest		
	Personal Interests	Corporate Interests	Total Interests
Mr. Chan Fat Chu, Raymond	56,025,937 191,250 (Note 1)	101,750	56,318,937
Mr. Chan Fat Leung, Alexander	50,514,127 191,250 (Note 2)	101,750	50,807,127
Mr. Lo Chi Kin, Andie	100,080	–	100,080
Mr. Tsui Muk Ming, Danny	100,004	–	100,004
Mr. Sit Chun Sze	27,991,354	–	27,991,354
Mr. John Cameron Broadley	200,000	–	200,000

# Report of the Directors *(Continued)*

## DIRECTORS' INTERESTS IN EQUITY OR DEBT SECURITIES *(Continued)*

Notes:

1. Mr. Chan Fat Chu, Raymond is beneficially interested in these shares, which are held by Regent Investment Company Limited, a company incorporated in the British Virgin Islands ("BVI") and beneficially owned by Mr. Chan Fat Chu, Raymond.
2. Mr. Chan Fat Leung, Alexander is beneficially interested in these shares which are held by Admiralty Investment Company Limited, a company incorporated in the BVI and beneficially owned by Mr. Chan Fat Leung, Alexander.
3. Falcon Investment Company Limited ("Falcon") held 1,017,500 ordinary shares of the Company. Falcon is a company incorporated in the BVI with limited liability and beneficially owned by Messrs Chan Fat Chu, Raymond and Chan Fat Leung, Alexander and their family members. Messrs. Chan Fat Chu, Raymond and Chan Fat Leung, Alexander are deemed to be interested in these shares in accordance with the SDI Ordinance as Falcon is accustomed to act in accordance with their directions or instructions.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Under the share option scheme (the "Scheme") adopted by the Company on 8th November, 1996 and amended on 31st December, 2001, the Board may, at their discretion, grant options to employees of the Group, including the Company's executive Directors, to subscribe for shares in the capital of the Company. The maximum number of shares in respect of which options may be granted under the scheme may not exceed 10% of the issued capital of the Company. Further details of the Scheme are set out in note 32 to the financial statements.

Details of movements in the share options granted under the Scheme to certain Directors of the Company are as follows:

	Options outstanding as at 1st May, 2000	Granted during the year	Options exercised during the year	Options outstanding as at 30th April, 2001
1. Share options granted to executive Directors on 16th January, 1997 at an exercise price of HK\$0.88 and exercisable from 16th January, 1997 to 15th January, 2007				
– Mr. Chan Fat Chu, Raymond	13,366,000	–	–	13,366,000
– Mr. Chan Fat Leung, Alexander	13,366,000	–	–	13,366,000
– Mr. Lo Chi Kin, Andie	2,500,000	–	–	2,500,000
– Mr. Tsui Muk Ming, Danny	1,900,000	–	–	1,900,000
2. Share options granted to executive Directors on 22nd June, 2000 at an exercise price of HK\$0.1218 and exercisable from 22nd June, 2000 to 21st June, 2010				
– Mr. Chan Fat Chu, Raymond	–	17,270,000	–	17,270,000
– Mr. Chan Fat Leung, Alexander	–	17,270,000	–	17,270,000
– Mr. Lo Chi Kin, Andie	–	10,000,000	–	10,000,000
– Mr. Tsui Muk Ming, Danny	–	10,000,000	–	10,000,000
– Mr. Sit Chun Sze	–	10,000,000	–	10,000,000
	<u>31,132,000</u>	<u>64,540,000</u>	<u>–</u>	<u>95,672,000</u>

## Report of the Directors *(Continued)*

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES *(Continued)*

Save as disclosed herein, none of the directors of the Company or their associates have any interests in the equity or debt securities of the Company or any of its associated corporations (within the meaning of the SDI Ordinance) or have been granted or exercised any right to subscribe for equity or debt securities of the Company which are required to be recorded in the register under section 29 of the SDI Ordinance or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

Under the pre-IPO share option plan adopted by Trasy Gold (the "Trasy Scheme"), the directors of Trasy Gold may, at its discretion, on or before 29th November, 2000, grant options to any full-time employees of Trasy Gold, the Company, and their respective subsidiaries, including executive directors of these companies, to subscribe for shares in the capital of Trasy Gold. The maximum number of shares in respect of which options may be granted under the Trasy Scheme may not exceed 10% of the issued capital of Trasy Gold outstanding on the date of listing of Trasy Gold shares on GEM. On 29th November, 2000, a total of 234,872,000 share options were granted under the Trasy Scheme. These options are exercisable in stages in accordance with the terms of the Trasy Scheme commencing from 7th June, 2001 to 28th November, 2010. All of these options have a duration of ten years from the date of grant, but shall lapse one month after the grantee ceases to be employed by the Company, Trasy Gold, or their respective subsidiaries. Further details of terms of the Trasy Scheme are set out in the listing prospectus of Trasy Gold dated 30th November, 2000.

Details of movements in the Trasy Gold pre-IPO share options granted under the Trasy Scheme to certain Directors of the Company are as follows:

	Options outstanding as at 1st May, 2000	Granted during the year	Options exercised during the year	Options outstanding as at 30th April, 2001
Share options granted to the Company's executive Directors on 29th November, 2000 at an exercise price of HK\$0.21 and exercisable in stages from 7th June, 2001 to 28th November, 2010				
– Mr. Chan Fat Chu, Raymond	–	7,364,000	–	7,364,000
– Mr. Chan Fat Leung, Alexander	–	7,364,000	–	7,364,000
– Mr. Lo Chi Kin, Andie	–	1,698,000	–	1,698,000
– Mr. Tsui Muk Ming, Danny	–	1,698,000	–	1,698,000
– Mr. Sit Chun Sze	–	44,152,000	–	44,152,000
	<u>–</u>	<u>62,276,000</u>	<u>–</u>	<u>62,276,000</u>

Save as disclosed above, at no time during the year was the Company or any of its subsidiaries, its fellow subsidiaries and its holding companies a party to any arrangement to enable the Directors or their respective spouse or children under 18 years of age, to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

# Report of the Directors *(Continued)*

---

## DIRECTORS' INTERESTS IN CONTRACTS

No director had a material interest in any contract of significance to the business of the Group to which the Company or any of its subsidiaries, its fellow subsidiaries and its holding companies was a party during the year.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of the business of the Company or any of its subsidiaries was entered into or existed during the year.

## SUBSTANTIAL SHAREHOLDERS

As at 30th April, 2001, the persons listed below were interested in 10% or more of the total issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to section 16(1) of the SDI Ordinance:

Name of shareholder	Number of ordinary shares	Approximate percentage
Chimstar Limited ( <i>Note</i> )	380,170,818	25.17%
Volaton Limited	380,170,818	25.17%
Tem Fat Hing Fung (Holdings) Limited ("TFHF")	520,936,818	34.49%

*Note:* Chimstar Limited is controlled by Volaton Limited which is a wholly-owned subsidiary of TFHF and all of these companies are deemed to be interested in the above shares.

Subsequent to the balance sheet date, the Company completed a number of placement and subscription of new shares in the Company, as a result of which there arose a dilution of the equity interests held by each of the above parties in the Company to a level attributing less than 10% of the issued share capital of the Company. In addition, as at the date of this report, there was no other person who was interested in 10% or more of the total issued share capital of the Company as recorded in the register required to be kept by the Company pursuant to section 16(1) of the SDI Ordinance.

Save as disclosed above, no person known to the Directors of the Company, was directly or indirectly interested in equity securities of the Company which were required to be recorded in the register kept under section 16(1) of the SDI Ordinance.

## DONATIONS

During the year, the Group made charitable and other donations totalling HK\$67,000 (2000: HK\$43,000).

## RETIREMENT SCHEME

Details of the retirement scheme of the Group and the employer's pension costs charged to the profit and loss account for the year are set out in notes 4 and 6 to the financial statements, respectively.

## SUBSEQUENT EVENTS

Details of the significant subsequent events of the Group are set out in note 39 to the financial statements.



## Report of the Directors *(Continued)*

---

### CONNECTED TRANSACTIONS

Apart from the related parties transactions as set out in note 3 to the financial statements, certain connected transactions of the Group subsisted or had been entered into during the year. Details of these connected transactions, which have been approved by the Directors of the Company, are set out on pages 77 to 80 of this annual report.

### COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors of the Company, the Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Listing Rules, except that 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 the annual general meeting of the Company in accordance with the Company's bye-laws.

### PRACTICE NOTE 19 OF THE LISTING RULES

Reference is made to the specific performance obligation imposed on the substantial shareholder and certain directors of the Company in relation to the 5% convertible notes (the "Notes") issued by the Company of which an aggregate principal amount of US\$19,300,000 (approximately HK\$149 million) remains outstanding as at the balance sheet date. Included in the balance are principal denomination of US\$5,000,000 (approximately HK\$39 million) held by a subsidiary of the Company. In addition, since US\$6,850,000 (approximately HK\$53 million) in respect of the Notes were redeemed on 28th April 2001, this amount has been excluded from the above balance.

Pursuant to the terms of the Notes, the principal amount outstanding on the Notes and the interest accrued thereon may be declared due and payable in the event that, amongst other things, (1) TFHF owns directly or indirectly, at any time during the interim when the Notes are outstanding, less than 35% of the outstanding equity capital of the Company to which voting rights are attached, or (2) both Mr. Chan Fat Chu, Raymond and Mr. Chan Fat Leung, Alexander cease to be the Directors of the Company. Failure to comply with these conditions would constitute an event of default under paragraph 9(i) of the terms of the Notes. The maturity for the repayment of the Notes was on 28th April, 2003. The amount outstanding in these Notes represents approximately 19% of the total borrowings (excluding trade related liabilities) of the Group as at 30th April, 2001.

Owing to the completion of placements of certain new shares by the Company on 24th April, 2001, the issued capital of the Company was enlarged, and the effective equity interest held by TFHF in the Company as at 30th April, 2001 was diluted to approximately 34.49%. Accordingly, the above Notes covenants have not been adhered to. Up to the date of this report, holders of the Notes have granted waivers to the Company, *inter alia*, for the declaration of an event of default under paragraph 9(i) of the terms of the Notes in this connection.

## Report of the Directors *(Continued)*

---

### PRACTICE NOTE 19 OF THE LISTING RULES *(Continued)*

In addition, the Group is required to observe a financial covenant underlying a gold loan facility which requires the maintenance of the Group's consolidated net tangible assets at no less than HK\$600 million (revised to HK\$800 million subsequent to the balance sheet date). Upon the completion of the acquisition of certain associates, the Group's consolidated net tangible assets as at 30th April, 2001 amounted to a negative balance of HK\$388 million, after excluding the goodwill attributable to these businesses. As a result, the aforementioned financial covenant; as well as the cross-default covenants underlying certain other borrowings as triggered thereby; have not been complied with. The total outstanding loans and other indebtedness affected in this connection amounted to approximately HK\$272 million as at 30th April, 2001. In addition, as a result of the subsequent movement in the Group's indebtedness, as at the latest practicable date for the preparation of these financial statements, the total amount of the Group's outstanding loans and other indebtedness as affected has increased to approximately HK\$359 million, comprising a gold loan payable of HK\$23 million; a bank loan of HK\$45 million; convertible notes and bonds of HK\$213 million; a promissory note payable of HK\$39 million; and accounts payable for gold purchase of HK\$39 million. The terms of the affected facility agreements stipulate that with any non-compliance of credit covenants, the lender of these borrowings may serve a notice to the Group to declare these borrowings immediately due and repayable.

### AUDIT COMMITTEE

The Company established an audit committee (the "Committee") in the prior year with written terms of reference which deal clearly with its authorities and duties pursuant to the Code of Best Practice as stated in Appendix 14 of the Listing Rules. The Committee comprises of two independent non-executive Directors of the Company, Mr. Wong Tak Wah, Daniel and Mr. Ma Kwok Keung. The Committee has reviewed the financial statements of the Group for the year ended 30th April, 2001 and are of the opinion that such statements complied with the applicable accounting standards, the Listing Rules and legal requirements, and that adequate disclosures have been made.

### AUDITORS

PricewaterhouseCoopers resigned as auditors of the Company on 25th May, 2001 and Ernst & Young were appointed by the members to fill the vacancy so arising on 4th July, 2001. There have been no other changes of auditors in the past three years. Ernst & Young retired and were reappointed as auditors of the Company by the members at the 2001 AGM.

### ON BEHALF OF THE BOARD

**Chan Fat Chu, Raymond**  
*Chairman*

Hong Kong, 22nd March, 2002