

RESULTS

The Group reported a turnover of HK\$1,700,867,000 for the year ended 31st March 2003, representing growth of 8.4% as compared to HK\$1,568,757,000 recorded last year. Profit attributable to shareholders surged 141.6% to HK\$83,500,000 (2002: HK\$34,555,000). The Group recorded a gain of HK\$48,665,000 (2002: Nil) in respect of the disposal of New Epoch Information during the year.

During the year under review, the jewellery distribution and export business continued to be the Group's major source of revenue. However, with the ongoing efforts of the management, revenue contributions from the brand retailing business increased significantly with the "3D-GOLD" Tourism Exhibition Hall making the major contribution. As the brand retailing business enjoys a higher gross profit margin, sales increases in this sector boosted the Group's overall gross profit margin from 13.7% last year to 18.7% this year.

Geographically, Mainland China and Hong Kong remained our major market, accounting for 85.5% of the Group's turnover. Sales in this region reached HK\$1,454,623,000, increasing by HK\$262,972,000 as compared to the previous year. In other areas, South-East Asia and the USA, accounted for 8.6% and 5.1% respectively of total turnover.

In the 2003 financial year, we opened Phases II and III of "3D-GOLD" Tourism Exhibition Hall and increased the number of "3D-GOLD" and "La Milky Way" retail chain stores to over 50 shops in Mainland China and Hong Kong. As a result of the expansion of our retail business, the Group continued to increase promotion costs for the "3D-GOLD" and "La Milky Way" products and brands during the year. Therefore, selling and marketing expenses accounted for 8.8% of total turnover, against 4.0% in 2002. Management believes that this investment will enhance the Group's brand values so as to sustain overall profitability in the longer term. General and administrative expenses also showed an increase from HK\$87,180,000 in 2002 to HK\$108,250,000 this year, along with the Group's overall expansion in business volumes. Its ratio as a percentage to total turnover increased slightly to 6.4% (2002: 5.6%). Following the lowering of interest rates, the Group's finance cost decreased from HK\$30,471,000 in 2002 to HK\$24,541,000 during the year.

BUSINESS REVIEW

Distribution and Export Business

Distribution Network

During the year under review, in addition to the expansion of existing marketing and distribution network, the Group has also continued to explore other potential distribution channels. Leveraging on our unique products, strong production capabilities, acute market sense and the support of loyal customers, the Group's export business continued to enjoy steady development.

In September 2002, the Group announced the cooperation with ShopNBC, a direct sales channel under CNBC, to sell "3D-GOLD" 24K gold jewellery products to the US market round-the-clock via television broadcasting channels and the internet. This new sales channel marked a new horizon to the Group's distribution and export business of brand products into the overseas market.

BUSINESS REVIEW (continued)

Distribution and Export Business (continued)

Production Capabilities and Technology Achievements

Commitment to the application of advanced technology in manufacturing processes for quality products has always been our corporate policy. The Group invests significantly to improve product quality and on-going productivity to develop new production technology to cope with the ever-increasing market demand. We also continue to upgrade our production facilities and technological standards as to ensure our operations comply fully with the international standards. In the past year, we received ISO 9001:2000 and ISO 9001 quality certification for our management, production and sales operations.

Apart from product quality, the Group also places strong emphasis on providing quality services in the distribution, wholesale, retail and export of our jewellery and watch businesses. Management fully appreciates that quality customer services are crucial to success in doing business. To this end, the Group successfully obtained a Hong Kong Q-Mark Service Scheme Certificate in May this year, certifying that our service standards meet the stringent requirements of the Hong Kong Q-Mark Council. We are very proud to be the first Hong Kong jewellery company to hold both ISO 9001:2000 and Hong Kong Q-Mark Service Scheme Certificate.

Brand Retailing Business

Retail Network

Creating new growth drivers for Hong Kong's tourism industry was one of the major set-up objectives of the "3D-GOLD" Tourism Exhibition Hall, a move which demonstrates the Group's innovation and vision. The Tourism Exhibition Hall integrates the Group's competitive strengths in design and manufacturing, together with our strong market sense. It has successfully achieved recognition in the industry to become a new Hong Kong 'must-see' destination. Having attracted over 2 million visitors, the Tourism Exhibition Hall represents a triumph and huge success of our unique idea. In view of the growing number of visitors, coupled with the government's policy to relax visa applications for incoming labour from Guangzhou to Hong Kong in January this year, management expanded the exhibition hall with Phases II and III to capture new market opportunities. The newly extended phases, occupying more than 30,000 square feet, aim to provide a spacious environment where customers can purchase our brand jewellery and watches comfortably and easily. Together with the original Phase I section, the total floor area of the exhibition hall now exceeds 50,000 square feet.

BUSINESS REVIEW (continued)

Brand Retailing Business (continued)

Retail Network (continued)

During the reviewing year, the Group placed strong effort into exploring the retail business both in Mainland China and Hong Kong. Leveraging on the synergistic effects of the "3D-GOLD" Tourism Exhibition Hall, we launched our first retail chain store in Hong Kong in September last year to sell our own brand products. Currently, the Group operates five "La Milky Way" retail chain stores in Hong Kong, situated at Causeway Bay's Times Square, Mongkok's Grand Century Place, Diamond Hill's Plaza Hollywood, Tuen Mun Town Plaza and Tsuen Wan's Tsuen Kam Centre. In Mainland China, the Group speeded up the development of the retail business to grasp market share. With the opening of retail chain stores through franchised and cooperative arrangements under the "3D-GOLD" and "La Milky Way" brands in principal provinces and cities, including Beijing, Shanghai, Jiangsu, Jinan, Sichuan, Shandong, Guangzhou and Shenzhen, the numbers of retail chain stores in Mainland China and Hong Kong have rapidly grown to above 50.

Products

Over the past year, the Group has continued to develop diamond jewellery, karat gold and sterling-silver products which bring in higher profit margins. The Group is also collaborating with different media to launch a series of product designs for TV series and entertainment celebrities. These include the signing of a license agreement with Television Broadcasts Limited to introduce a series of "La Milky Way" brand jewellery designs based on famous Hong Kong next generation singers, such as Twins and Joey Yung. Hang Fung Gold is the first Hong Kong jewellery company to launch jewellery products with designs based on singers' image, taking the leap into the high purchasing power wielded by the untapped younger market.

During the year, the Group designed and launched a number of jewellery product series, including "Everlasting Fortune", "Cupid-Cut", "Always in Your Heart", "Twinkle in the Dark", "Emotion", "Love & Touch" etc. In addition to jewellery products, the Group also launched "3D-GOLD" watches, such as "Creator" and "Princess and Prince" series. All these products have been well received in the market.

Disposal of New Epoch Information

On 12th December 2002, the Group entered into an agreement with New Epoch Holdings International Limited ("New Epoch Holdings") to transfer our entire equity interest of 49.9% in our associate, New Epoch Information, and the loan of HK\$50,000,000 extended to New Epoch Information together with accrued interest thereon to New Epoch Holdings. The consideration was satisfied by a set-off against the amount payable by the Group in the repurchase of 700,000,000 shares of the Company held by New Epoch Holdings. The transaction was completed in February, 2003. Based on the valuation of the repurchased shares at approximately HK\$60,900,000, the Group recorded a gain of HK\$48,665,000 from this transaction, representing the write back of provisions made against New Epoch Information in the past.

BUSINESS REVIEW (continued)

Disposal of New Epoch Information (continued)

After this re-organisation, we will focus on developing our core business, concentrating our resources on the jewellery-related businesses. Net asset value per share and return on shareholders' funds have improved as a result of the reduction in the number of issued shares.

Awards and Achievements

Capitalising on our advanced manufacturing technology and innovative spirit, the Group earned a number of international and local awards during the year, including:

- Silver Award for the "Pendant" category in The Fourth International South Sea Pearl Jewellery Design Competition
- Merit Award for the "Bracelet" category in The 4th Hong Kong Jewellery Design Competition organized by Hong Kong Trade Development Council
- Hong Kong Q-Mark Service Scheme Certificate presented to Hang Fung Gold Technology Limited, "3D-GOLD" Tourism Exhibition Hall and "La Milky Way" retail chain stores
- Dr. Lam Sai Wing, our Chairman, also received the 2002 Bauhinia Cup Outstanding Entrepreneur Award

Liquidity and Financial Resources

As at 31st March 2003, the Group maintained aggregate banking facilities of HK\$610,345,000 (2002: HK\$475,277,000), of which HK\$26,632,000 (2002: HK\$32,783,000) had not been utilised. The Group primarily uses internally-generated cash flow and banking facilities to finance operations and business development. Management is of the view that the Group has sufficient funding for these purposes. Interest on bank borrowings is charged at commercial lending rates to the Group. Details of the maturity of bank borrowings as at 31st March 2003 are set out in Notes 21 and 22 to the accounts.

As at 31st March 2003, the Group's gearing ratio (ratio of aggregate bank borrowings less cash and bank deposits to equity) was 0.81 (2002: 0.62). Increase in bank borrowings was mainly used to finance the acquisition of fixed assets as well as the Group's general expansion in business volumes, particularly in brand retailing.

Certain assets of the Group have been pledged to banks for these banking facilities. Details are set out in Note 35 to the accounts.

BUSINESS REVIEW (continued)

Exchange Rate Exposure

The assets, liabilities and transactions of the Group are denominated mainly in Hong Kong dollars and Renminbi. As Renminbi exchange rate remained stable during the year, risk in exchange rate fluctuation is considered to be minimal.

Contingent Liabilities

As at 31st March 2003, the Company had given to banks and other financial institutions corporate guarantees in respect of banking facilities granted to its subsidiaries, details of which are set out in Note 33 to the accounts.

Investors Relations

Hang Fung Gold has worked hard to increase transparency during the year. We are also very keen to improve investor relations with analysts and securities professionals, ensuring that they understand our long-term development goals. The management believes that regular communications with investors will help us to gather more information and valuable opinions, which will be beneficial to the development of a healthy monitoring system.

After thorough consideration of our investors' opinion, we decided to proceed with share consolidation in April 2003, in which every ten shares of HK\$0.01 each in the capital of the Company were consolidated into one consolidated share of HK\$0.10 each. The share consolidation not only increased the nominal value of the shares of the Company, but also helped attracting more international and institutional investors, further extending our shareholder base.

In the coming year, Hang Fung Gold will continue to provide more corporate and market information to investors, aiming to enhance the quality of our service.

Employees

As at 31st March 2003, the Group had over 2,000 employees. Staff are rewarded according to industry standards, which are reviewed on an annual basis. The remuneration includes a basic salary and bonus. The Group's employment costs amounted to HK\$63,690,000 for the year ended 31st March 2003 (2002: HK\$55,002,000). The Company has a share option scheme, with options being granted to employees who have made an exceptional contribution to the Group.

PROSPECTS

Distribution and Export Business Ensures Stable Revenues

Looking ahead, the distribution and export business is expected to maintain stable growth. The Group will actively participate in a number of major overseas jewellery expos. At these expos, not only can we explore new buyers and markets, but also exchange market updates with other industry players and obtain more inputs for our research and marketing operations.

Brand Retailing Business As Future Growth Driver

With the signing of the landmark Closer Economic Partnership Arrangement (CEPA) between Mainland and Hong Kong, tariffs on imported jewellery products to Mainland will be waived, which will reduce the cost of sales, thereby enhance our competitive edge in the jewellery industry. To capture this opportunity, Hang Fung Gold will fully utilise our comprehensive production facilities, patented technologies, innovative designs and popular own brand products, to accelerate the pace of development in the Mainland retail market. The Group's "3D-GOLD" watches will also be introduced into the Mainland market with the zero-tariff concession. In the long term, the Group's key market will be in the Mainland China. The Group will prudently, yet actively, open new retail chain stores in Mainland China's major cities through franchised or cooperative arrangements with a long-term target of 300 retail chain stores by 2006. With these synergistic marketing strategies and coordinated plans, we believe these activities will further strengthen our brand image and enlarge our market share.

In addition, we also believe that the signing of "CEPA" will foster cooperation with multi-national conglomerates. As such, we will explore on international cooperation in setting up joint ventures in Hong Kong in order to sharpen the competitive edge of our patented brands - "3D-GOLD" and "La Milky Way", to capitalise on the potential growth of the Mainland domestic market.

In the Hong Kong market, the Group will continue to focus on the development of the "3D-GOLD" Tourism Exhibition Hall. Although SARS has seriously hampered Hong Kong's tourism industry, the management believes that the effect will only be temporary. Besides, China National Tourism Administration announced that residents of Dongguan, Zhongshan, Foshan and Jiangmen cities in Guangdong are allowed to travel to Hong Kong from 28th July 2003 as individuals instead of having to join tour groups. As a number of special offers are being launched by hotel, catering and retail industries to revitalise the tourism industry, we are confident that the "3D-GOLD" Tourism Exhibition Hall will once again attract millions of visitors and bring in substantial revenues and returns for the Group.