

Management Discussion and Analysis

RESULTS

For the year ended 31st March 2004, the Group reported a turnover of HK\$2,067,674,000, representing a 21.6% growth as compared with HK\$1,700,867,000 recorded last year. Operating profit increased by 27.7% to HK\$85,460,000 (2003: HK\$66,927,000). Profit attributable to shareholders amounted to HK\$61,779,000 (2003: HK\$83,500,000). The last year's net profit of HK\$83,500,000 included an exceptional gain on disposal of an associate amounting to HK\$48,665,000. Taking out the effect of such non-recurring item, net profit for the year will increase by 77.3% against 2003. Despite the outbreak of Severe Acute Respiratory Syndrome ("SARS") in the first half of the year, the Group's turnover and operating profit still increased prominently. This was resulted from stringent control on costs and expenses by the management, which enabled the Group's brand-retailing business rebounded swiftly and returned performance that even surpassed the pre-SARS level, reporting recorded high sales.



During the year under review, the jewellery distribution and export business continued to be the Group's major source of income. However, with the dedicated efforts of the management, revenue contributions from the brand retailing business, especially from the "3D-GOLD" Tourism Exhibition Hall, increased significantly. As the brand retailing business enjoys a higher gross profit margin, sales increases from this segment boosted the Group's overall gross profit margin from last year's 18.7% to 23.9% this year.



Geographically, Mainland China and Hong Kong remained our largest markets. The total sales from them reached HK\$1,770,310,000, an increase of HK\$315,687,000 over last year's figure. It accounted for 85.6% of the Group's total turnover. Thanks to the active promotional efforts of our appointed agents in Singapore, Taiwan and other Southeast Asian markets, sales from those markets rose to HK\$165,049,000 during the year, accounting for 8.0% of the Group's total turnover. Sales from the United States ("U.S.") accounted for 5.8% of the total turnover.

To match the expansion of its retail business, the Group continued to increase its expenses for marketing and promoting the "3D-GOLD" brand and products. Our brand building efforts was rewarded in the year, with "3D-GOLD" awarded as one of the "Top Ten Brands in Hong Kong" as well as one of the international "Luxury Superbrands". As a result, selling and marketing expenses accounted for 12.6% of the Group's total turnover, against 8.8% in 2003. The management believes the investment will enhance the Group's brand value and enable it to sustain overall profitability in the longer term. In addition, with the Group expanding its overall business during the year, general and administrative expenses increased to 7.3% (2003: 6.4%) of the total turnover. The Group's finance cost increased slightly from HK\$24,541,000 last year to HK\$25,110,000 this year.

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DIVIDENDS

The Board of Directors proposed a final dividend of HK0.6 cent (2003: nil) per share for the year ended 31st March 2004. The final dividend, if approved by shareholders at the forthcoming annual general meeting, will be payable on or about 5th October 2004 to shareholders whose names appear on the Register of Members of the Company on 26th August 2004. Together with an interim dividend of HK1.2 cents (2003: nil) per share and a special dividend of HK0.8 cent (2003: nil) per share, the total dividend for the year amounted to HK2.6 cents (2003: nil) per share.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 23rd August 2004 to 26th August 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and determine the identity of members who are entitled to attend and vote at the forthcoming annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Rooms 1901-5, 19th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 20th August 2004.

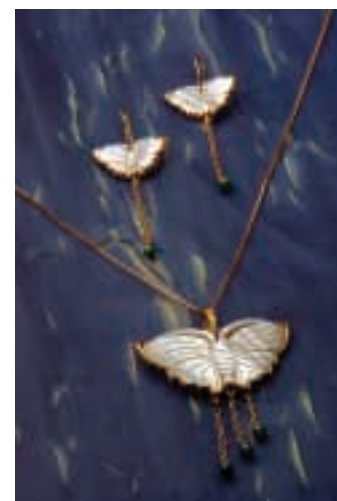
BUSINESS REVIEW

Distribution and Export Business

Over the years, distribution and export business has been the Group's major income source. With innovative designs and technology, Hang Fung Gold Technology uses a variety of precious metal to produce different products for distribution to different markets worldwide. During the year under review, distribution and export business played an important role by bringing in stable income to the Group, offsetting the impact of the SARS outbreak.



As an international enterprise, the Group actively participated in major international jewellery shows held in Europe, the U.S. and Asia, including the VicenzaOro in Italy, the Hong Kong International Jewellery Show 2004, the Bangkok Gems and Jewellery Fair 2004, the Basel Fair 2004, The JCK Show – Las Vegas and Hong Kong Jewellery and Watch Fair 2004, etc. Direct contact with overseas buyers and manufacturers not only allows the sales team of the Group to access latest market information and keep track of market trends, but also gives us the opportunity to promote our new designs to the world.

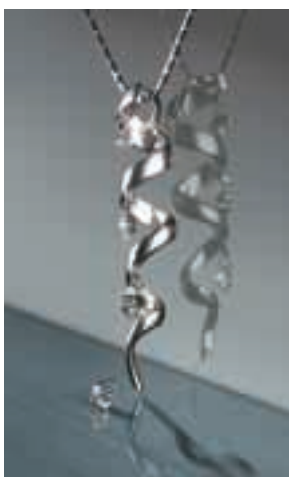


Response of the US market has been persistently strong since the Group teamed with CNBC to directly market its "3D-GOLD" brand 24K gold jewellery products on the ShopNBC channel in 2002. During the year, the US market recorded sales of HK\$119,311,000, an increase of 38% over last year's figure, accounting for 5.8% (2003: 5.1%) of the Group's total turnover.

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Production Capabilities and Technological Achievements

Insisting on innovation and changing for the better, the Group boasts a product research and design team comprising more than 100 professionals. With outstanding capabilities in developing high-tech and patented new products, the Group hopes to lead the way for Hong Kong's jewellery industry to enter the international market. The Group runs a number of production plants in Hong Kong and Shenzhen. With the support of the large-scale production facilities and the Group's excellent one-stop service, Hang Fung's jewellery, ornaments and corporate gifts are popular among buyers all over the world. Understanding precisely the trends and tastes of customers in different markets, the Group's design team is able to present new matching designs every month .



Following in the footsteps of the Hong Kong Head Office, the Group's subsidiary in Shenzhen, Hang Fung Jewellery (Shenzhen) Company Limited, also received the ISO9001:2000 Certificate during the year. This again proved that the Group's production facilities had met international standards.

Brand Retailing Business

In recent years, the Group's brand retail business are principally divided into tourist retail business (mainly in Hong Kong) and franchised retail business (mainly in China). Instrumental to realizing the Group's strategy to build an international brand, "3D-GOLD" Tourism Exhibition Hall helps to promote the "3D-GOLD" brand by strengthening its impression on the mind of every visitor who visited and shopped there. It has greatly enhanced the brand reputation of the Group in both the overseas and Mainland markets. The Group continued to craft traditional and religious statues and figures of gold with its high-tech skills and displayed them in the "3D-GOLD" Tourism Exhibition Hall to attract tourists from around the world.

The outbreak of SARS in early 2003 caused a drastic drop in the number of visitors to Hong Kong. Sales from the "3D-GOLD" Tourism Exhibition Hall was therefore seriously affected between April and June 2003. To combat the impact of SARS, the Group tightened control on costs and expenses in all aspects of its operation. At the containment of SARS and the subsequent removal of Hong Kong from the list of infected areas by the World Health Organization in late June 2003, large number of tourists again flocked into Hong Kong. Being a "must-see" tourist spot, the "3D-GOLD" Tourism Exhibition Hall was flooded with visitors. Sales income rebounded quickly and the turnover exceeded the pre-SARS level, with a relatively huge growth of tourist sales over last year. At present, an average of between 5,000 and 6,000 people visit the "3D-GOLD" Tourism Exhibition Hall every day. Prompted by the relaxation of the amount of cash drawings by Mainland visitors in Hong Kong and "China Unionpay" credit cards becoming a more popular method to pay for purchase, Mainland visitors

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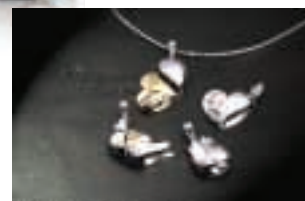
are more ready to spend and are spending more than before in Hong Kong. Their average spending was between HK\$3,000 and HK\$4,000, whereas visitors from more wealthy cities or those using credit cards on average spent up to between HK\$7,000 and HK\$8,000. During the most recent major Mainland public holiday periods, including National Day and Lunar New Year, sales from the "3D-GOLD" Tourism Exhibition Hall broke records of past years and accomplished magnificent results. Apart from opening Tourism Exhibition Hall to attract tourists, the Group has also launched the first "3D-GOLD" Jewellery Shop at Sino Centre in Mongkok in November last year, so as to expand its local retail market share.

For the business in Mainland China, since the SARS outbreak affected only limited areas, the impact on the Group's business was minimal. The Group directly benefited from the robust growth of the Mainland economy and new retail chain stores were added through franchising and cooperative arrangements. Currently, the Group has around 70 retail stores in China through these arrangements. For the products purchased by Mainland customers in Hong Kong, the Group's retail stores in the Mainland can provide services for repairs and maintenance. The quality after-sales service of the Group has helped to boost customer confidence in its products and effectively promote the brand as well.

Products

As a global jewellery enterprise with equal emphasis on export and distribution, and tourism retail, Hang Fung Gold Technology has been striving the best to design jewellery of unique styles.

In recent years, the Group has been actively exploring higher margin jewellery markets, such as those for diamond jewellery, karat gold and sterling-silver products. It also collaborated with different media, including signing a license agreement with Television Broadcasts Limited, to launch a series of products for specific TV series. Such arrangement did not only allow the Group to cultivate new customer source, but also enabled it to effectively promote the "3D-GOLD" brand, building it into a prevalent "Superbrands". In addition, the Group successfully expanded the "3D-GOLD" brand cover timepieces and launched various wristwatch series with unique designs. The stylish watch series won the heart of Mr. Ronaldo who became the spokesperson of "3D-GOLD" watch, further enhancing the popularity of the watch series. The "3D-GOLD" watch business, thus, recorded rapid development and encouraging results and became another revenue source of the Group.



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During the year, pinpointing the different tastes of different customer groups and their requirements at different occasions, the Group designed and launched various jewellery series, featuring different materials. Those product series included “I Love You”, “Love Arrows”, “In Motion”, “Ribbon”, “Simply Love”, “HearToTell”, “Celestial Brilliance”, etc.

Awards and Achievement

Through mounting strategic promotional programmes and capitalizing on its profound experience in the industry, the Group is able to gain widespread recognition for its precious metal and jewellery products and secure encouraging rewards. Boasting advanced manufacturing technology and innovative spirit, the Group obtained a number of international and local awards over the years, marking Hang Fung Gold Technology steady business expansion and innovative development tactics, and its pragmatic management approach. The awards obtained during the year included:

- Hang Fung Jewellery (Shenzhen) Company Limited awarded the ISO9001:2000 Certificate
- Ms. Chan Yam Fai, Jane, Deputy Chairman, received the Fellowship of The Professional Validation Council of Industries
- Merit Awards (5) of the 5th Hong Kong Jewellery Design Competition organized by Hong Kong Trade Development Council
- Chuk Kam Jewellery Design Competition 2004 organized by Hong Kong Jewelers and Goldsmiths Association

Winner of the Category: Open Group – Legendary Fantasy

Winner of the Category: Open Group – Retro Futurism

- Luxury Superbrands
- 2003 Hong Kong Top Ten Brandnames Award
- 2003 Trade Development Council Export Marketing Award
- 1st Runner-up of the Brooch Section, 2nd Runner-up of the Pendant Session, 2nd Runner-up of the Bracelet Section and 2nd Runner-up of the Accessory Section of the Tahitian Pearl Trophy 2003 Asia
- Hong Kong Q-Mark Service Scheme Certificate

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Liquidity and Financial Resources

Banking Facilities

As at 31st March 2004, the Group maintained aggregate banking facilities of HK\$829,169,000 (2003: HK\$610,345,000), of which HK\$154,210,000 (2003: HK\$26,632,000) had not been utilised. The Group primarily uses internally generated cash flow and banking facilities to finance its operations and business development, and the management believes that it has sufficient funding to serve 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 2004 are set out in Notes 20 and 21 to the accounts.

As at 31st March 2004, the Group's gearing ratio (ratio of aggregate bank borrowings less cash and bank deposits to equity) slightly decreased to 0.72 (2003: 0.81).

Certain assets of the Group have been pledged to banks for these banking facilities. Details are set out in Note 34 to the accounts.

Placement

In September 2003, in view of the market conditions favouring raising capital for the further development of our business, while simultaneously broadening our shareholder base, the Company issued 72,470,000 new ordinary shares of HK\$0.10 each (after share consolidation described in Note 26 to the accounts) pursuant to a top-up placing at a price of HK\$1.31 per share. The placing shares, representing approximately 15% of the then existing issued share capital, were subscribed by institutional investors. The net proceed from the placing of approximately HK\$92 million was applied in funding the expansion of retail network, enhancing production capacity in addition to general working capital purposes.

Syndicated Loan Facility

The Group successfully obtained a 3-year syndicated loan facility on 30th June 2004, and signed an agreement with a group of 10 international and local banks in connection with the HK\$300 million term loan facility, with an interest margin of HIBOR + 1.50% per annum. The proceeds of the facility will be used for refinancing a portion of the Group's existing debts and for expanding its retail network and manufacturing capacity in China.



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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 2004, 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 32 to the accounts.



Investor Relations

The Group values very much its relationship with investors. Committed to maintaining close relations with international funds, institutional investors, analysts and securities firms, the Group took the initiative to improve transparency of the different aspects of its operation, and has been receptive to

investors' opinions. Our goal is to make sure investors thoroughly understand the Group's management philosophy and long-term development plans.

The Group participated in various international investor forums, and staged roadshows in Hong Kong, Singapore and Japan. In addition, it arranged visits for fund managers to its manufacturing plants in China and the "3D-GOLD" Tourism Exhibition Halls, enhancing communication with investors.

The Group maintains an open mind to investors' comments, which it believes will enable to strengthen its relationship with investors.



Employees

As at 31st March 2004, the Group had over 2,000 employees. Staff members are rewarded according to industry standards, which will be reviewed annually. Staff remuneration includes a basic salary and bonus. For the year ended 31st March 2004, the Group's employment costs amounted to HK\$74,971,000 (2003:HK\$63,690,000). The Company offers a

share option scheme for staff, with options being granted to employees who have made exceptional contributions to the Group.

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PROSPECTS

According to latest government statistics, the total retail sales of Hong Kong in April 2004 was HK\$15.6 billion, an increase of 23% over that in the corresponding period last year. Among the different products, jewellery, watches and premium gifts recorded the most prominent growth in sales quantities at 71.4%. This did not only elucidate the continuous recovering of local consumer demands (including tourists), but also reflected the huge capacity for growth of the jewellery market, presenting Hang Fung Gold Technology with a solid foundation for future expansion.

As the Mainland Government further relaxed its Individual Travellers Scheme, starting from 1st July 2004, residents of nine more cities with strong purchasing power from the Zhejiang, Jiangsu and Fujian provinces can come to Hong Kong to visit. The Group is confident that the local retail industry will rebound as more Mainland visitors arrive and the economic sentiment in Hong Kong picks up. In late April 2004, the Group pursued the expansion of Phases V and VI of its "3D-GOLD" Tourism Exhibition Hall, adding a total of 50,000 square feet of retail space. Together with the original three phases, the "3D-GOLD" Tourism Exhibition Hall now occupies a total gross floor area of over 100,000 square feet, providing a comfortable shopping environment for tourists from all over the world. Committed to adding new tourist attractions among its exhibits, the Group introduced the "Gold Temple of Wong Tai Sin" and "Gold Statue of Wong Tai Sin" in the expanded Exhibition Hall. They became talk of the town in one time, drawing many new visitors. Furthermore, the Group opened its second "3D-GOLD" Jewellery Shop in Causeway Bay. We are seeking for shopping locations for planning another 2 to 3 retail outlets.

Besides focusing on the retail market in Hong Kong, the Group is also speeding up expansion in the China market. It believes that the growing per capita income of the country will trigger greater demands for quality jewellery products. The Group plans to increase the number of retail outlets in China to 100 by the end of 2004, through franchising and cooperative arrangement, with the longer-term goal of further increasing the number of outlets to 300 by 2006. The Group also plans to expand its brand retail business to the overseas market by applying the cooperative and franchise model, bringing its brand products to the Southeast Asian and Euro-American consumers.

In the meantime, Hang Fung Gold Technology will continue to expand its market reach to customers in Europe, American and the Asia Pacific regions. Apart from maintaining its leadership position, the Group aims to actively reciprocate the country, promoting economic development of the country with its capability to innovate and enhancing China's competitiveness with its advanced technologies.