

Management Discussion and Analysis

RESULTS

During the financial year 2004/05, the Group continued to benefit from the relaxed “Individual Travel Scheme”, which fueled the growth of its retail business and in turn the Group’s development at large. For the year ended 31st March 2005, the Group reported a turnover of HK\$2,566,814,000, representing a 24.1% growth as compared with HK\$2,067,674,000 recorded last year. Operating profit increased by 63.0% to HK\$139,267,000 (2004: HK\$85,460,000). Profit attributable to shareholders surged 72.6% to HK\$106,636,000 (2004: HK\$61,779,000).

During the year under review, at the launch of new retail shops and the completion of Phases V and VI expansion of its “3D-GOLD” Tourism Exhibition Hall, contribution from the Group’s brand retailing business continued to report substantial growth. 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 23.9% to 35.2% this year. On the other hand, the Group’s jewellery distribution and export business remained steady, continuing to be a major source of income of the Group.



With its retailing business in operation only for four years, the Group sees the need for aggressive marketing efforts for the segment. Thus, during the year, it continued to increase its marketing expenses to sustain and enhance the awareness of the “3D-GOLD” brand and products. Additional selling expenses were also incurred along with our expansion of retail outlets. Accordingly, selling and marketing expenses accounted for 21.2% of the Group’s total turnover, against 12.6% in 2004. These efforts were well rewarded – “3D-GOLD” made one of the “Hong Kong Top 10 Brandnames” and was recognised among “Luxury Superbrands” internationally. With more stores opening in the coming years, the management believes that the effects of the Group’s marketing

efforts will be even more apparent in helping to generate satisfactory revenue to the Group. In addition, the Group's general and administrative expenses increased to 8.7% (2004: 7.3%) of the total turnover as its operations expanded. Finance costs increased slightly from HK\$25,110,000 last year to HK\$26,465,000 this year.

Geographically, Mainland China and Hong Kong remained as the Group's largest markets, accounting for 89.3% of the Group's total turnover. Sales generated from these markets reached HK\$2,293,038,000, an increase of 29.5% over last year's HK\$1,770,310,000. Overseas sales amounted to HK\$273,776,000 (2004: HK\$297,364,000).

DIVIDENDS

The Board of Directors declared a final dividend of HK2.8 cents per share and a special dividend of HK1.0 cent per share, totalling of HK3.8 cents per share, for the year ended 31st March 2005 to shareholders whose names appear on the Register of Members of the Company on 31st August 2005 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 (the "Scrip Dividend Scheme").

Subject to the approval by shareholders at the forthcoming annual general meeting, a circular containing details of the Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or about 31st August 2005. The Scrip Dividend Scheme is conditional upon the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and

permission to deal in the new shares to be issued pursuant thereto. It is expected that the relevant dividend warrants and certificates for the new shares will be despatched to shareholders on or about 5th October 2005.

CLOSURE OF REGISTER OF MEMBERS

The Register of Members of the Company will be closed from 26th August 2005 to 31st August 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and special 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 Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:00 p.m. on 25th August 2005.

Management Discussion and Analysis



BUSINESS REVIEW

Distribution and Export Business

Hang Fung Gold Technology is committed to promoting Hong Kong designed products to markets around the world. To that end, it actively participates international jewellery shows. During the year, the Group attended different major international jewellery shows in Europe, the U.S. and Asia, including VicenzaOro1 & 2, the Bangkok Gems & Jewelry Fair, BaselWorld, Istanbul 2005, and the JCK Show ~ Las Vegas, etc. The Group is famous for turning out innovative products of trendy designs that exemplify cultures and characteristics of different countries. The Group is bold with material mix and application of production technologies, which underscore its ability to create new and refreshing designs that draw customers.

To further penetrate the markets in different countries, the Group engages in strategic cooperation with renowned local distribution channels and the most successful one is that with CNBC in the US market. The Group has teamed with CNBC to directly market its “3D-GOLD” brand 24K gold jewellery products on the ShopNBC channel since 2002. Response from this market has been persistently strong. During the year, sales in the US market amounted to HK\$103,961,000, (2004: HK\$119,311,000), accounting for approximately 4.1% (2004: 5.8%) of the Group’s total turnover.



Brand Retailing Business

Brand retailing business has become one of the Group’s major revenue sources. During the year, the Group continued to expand its retail regime both in Hong Kong and Mainland China. In 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. We also renovated a new area in the Exhibition Hall to specially accommodate the tourists from South-East Asian countries, such as Korea, Thailand and Taiwan. Such move has diversified our customer base from Mainland tourists to visitors from other countries as well. In addition, the Group opened four new “3D-GOLD” jewellery shops in Causeway Bay, North Point and

Tsim Sha Tsui in the year, aiming to grasp the tremendous opportunities brought by the increasing number of individual travelers from Mainland China. Turning to the Mainland market, the Group has around 85 retail stores in Mainland China through franchising and cooperative arrangements during the review period.

During the year, the Group successfully utilised the hot talking points in town to promote its brand name through various media and different channels. These included the “Glamorous in Gold” Lucky Draw Program co-organised with Henderson Real Estate Agency Limited, the sponsorship of “Kelly Chen Lost in Paradise” Concert with the 3D-GOLD “The Fantastic Flying” Gold & Diamond Carriage valued at HK\$60,000,000 and the making of Deng Xiaoping “3D-GOLD Diamond Gold Statuette” for Deng Xiaoping’s 100th Birthday Memorial. In addition, the Group has appointed Miss Kelly Chen, a renowned artist and an Outstanding Youth, to be the Group’s spokesperson, who fully represents the ‘classy’, ‘innovative’ and ‘confident’ brand image of “3D-GOLD”. The move has successfully raised customer awareness of the brand in both Mainland China and Hong Kong.

Product

To realise its philosophy of merging technology with innovation, the Group had adopted the breakthrough 8-side-88-facet brilliant cut technology to make its ‘YOUUnique Diamond’ and ‘8-Senses’ jewellery collection, which were very well received by the customers. Besides, the Group had been granted a license by Warner Bros. to produce the Harry Potter jewellery and watch collection, which will be launched later in the year.

Awards and Achievement

Hang Fung Gold Technology has received widespread recognition both locally and internationally for its emphasis and efforts on producing creative original jewellery designs. At the same time, its management is well appreciated for its contribution to the society and community. The awards obtained by the Group during the year included:

- Hong Kong Q-Mark Service Scheme Certificate
- Dr. Lam Sai Wing, Chairman, received the Medal of Honour by the Chief Executive of HKSAR
- Gold Award of the “Bracelet” category of Open Group at The Fifth International South Sea Pearl Jewellery Design Competition
- Silver Medal Award of Product Division and Premier Award of Drawings Division at the International Design Competition for Trendy Jadeite Jewellery
- Gold Prize in both the Ring Group and Pendant and Brooch Group at the 6th Buyers’ Favorite Jewellery Design Competition 2004



Management Discussion and Analysis

- Merit Award at the 2004 E.F.D. Charming Princess Square Diamond Jewellery Design Contest
- Two Merit Awards at 6th Hong Kong Jewellery Design Competition organised by Hong Kong Trade Development Council

Liquidity and Financial Resources

Banking Facilities

As at 31st March 2005, the Group maintained aggregate banking facilities of approximately HK\$1,099,585,000 (2004: HK\$829,169,000), of which approximately HK\$269,096,000 (2004: HK\$154,210,000) had not been utilised. The Group finances its operations and business development primarily with internally generated cash flow and banking facilities, and the management believes it has sufficient funds to serve these purposes in the foreseeable future. Interest on bank borrowings is charged at commercial lending rates to the Group. Details of the maturity of bank borrowings as at 31st March 2005 are set out in Notes 18 and 19 to the accounts.

As at 31st March 2005, the Group's gearing ratio (ratio of aggregate bank borrowings less cash and bank deposits to equity) increased slightly to 0.84 (2004: 0.72) subsequent to the syndicated loan raised in the year.



Certain assets of the Group had been pledged to banks for these banking facilities. Details are set out in Note 31 to the accounts.

Syndicated Loan Facility

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

Rights Issue

In April 2005, the Group successfully completed a rights issue of 186,931,333 rights shares at a subscription price of HK\$1.01 each on the basis of one rights share for every three existing shares held. Shareholders response was positive resulting in an approximately 1.19 times subscription. The proceeds of the rights issue of approximately HK\$188.8 million is intended to be used for repayment of part of the Group's existing bank borrowings and for further development of the retailing business.

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 2005, the Company had given to banks and other financial institutions corporate guarantees in respect of finance lease obligations and banking facilities granted to its subsidiaries, details of which are set out in Note 29 to the accounts.

Investor Relations

The Group values 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.

During the year, the Group arranged visits and one-on-one meetings for fund managers to its "3D-GOLD" Tourism Exhibition Halls to enhance communication with investors. The Group believes maintaining an open mind to investors' comments is instrumental to forging strong investor relations and thanks its investors for their continuous support over the years. The Group is committed to relentlessly offering them the best services.

Employees

As at 31st March 2005, 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 2005, the Group's employment costs amounted to HK\$118,962,000 (2004: HK\$74,971,000). The Company offers a share option scheme for staff, granting options to employees who have made exceptional contributions to the Group.

PROSPECTS

The opening of Disneyland in September 2005 will be the highlight of the year for both Hong Kong and Hang Fung Gold Technology. It is expected to attract 23.41 million visitors to Hong Kong in 2005, providing a major boost to tourism and the

retail sector in Hong Kong. As a major player in these two areas, Hang Fung Gold Technology shall surely benefit.

To capitalise on such lucrative opportunities, the Group has already expanded its "3D-GOLD" Tourism Exhibition Hall to over 100,000 square feet of retail area in the year to cope with significant surge in the number of visitors after the opening of Disneyland in Hong Kong. New gold attractions will also be added in the exhibition halls to draw first time and repeated visitors.

Apart from targeting tourists from around the world, the Group is also committed to further penetrating the local market. Having built a highly famed brand name and following the opening of flagship stores in prime districts of Hong Kong, the Group plans to expand its retail network to newly developed districts, taking advantage of their lower rental. In 2005, the Group plans to open 2 to 3 stores in those areas, with the long term aim of penetrating all 18 districts in Hong Kong.

Outside Hong Kong, the Group will continue to increase the number of retail outlets through franchising and cooperative arrangement, with the goal of achieving 300 retail outlets in Mainland China by the year 2008. The Group plans to open 1 to 2 retail shops in Macau in the coming year. It will also expand its retail network in its overseas markets, especially the South East Asia region by cooperating with different partners there.

Leveraging its firm roots in Hong Kong to expand business internationally will be the Group's core direction of development. Looking ahead, the management is confident that the Group will be able to seize the tremendous opportunities arising from the opening of the Disneyland as well as the rapidly developing retail market in both Mainland China and overseas.