

BUSINESS REVIEW AND PROSPECTS

The Group has been consolidating its core business in the past six months; its operations are now back on the right track. For the six months ended September 30, 2001, the Group recorded a profit attributable to shareholders of approximately HK\$6.0 million.

The unfavorable external economic conditions lingered, its turnover for the first six months decreased by 17.6% to approximately HK\$145.9 million as compared to the corresponding period last year. Profit attributable to shareholders also dropped 59.0% as compared to the same period last year.

During the period under review, the global economy remained lethargic and buyers took a highly cautious attitude in placing orders. Though the U.S. government had implemented several reductions in interest rates, there was no sign of improvement in consumer sentiment. The attack in New York on September 11 further discouraged buyers' confidence and affected their participation in the international jewelry show held in Hong Kong this late September. In Europe, most of the countries have also inevitably suffered from this economic downturn. The continuing drop in the Euro exchange rate caused a serious impact on their imports. Nevertheless, the Group has managed to minimize these adverse effects by virtue of its flexible marketing strategies, stringent cost controls and tailor-made solutions for markets of different countries.

Traditional pearl business performed steadily under the review period. Among all, South Sea pearls with a relatively better quality demonstrated remarkable sales and accounted for the largest share in the Group's total turnover of 49.9%. Due to a slight increase in the supply of South Sea pearls, its price was adjusted accordingly and became more competitive and attractive. International fashion designers adopt South Sea pearls as the leading accessories, making them well sought after in the jewelry market. To ride on this escalating trend, the Group will enhance its promotion on South Sea pearls to meet with the market demand and further strengthen the Group's market share in this segment.

Both the demand for Chinese cultured pearls and Chinese freshwater pearls were stable. For the Chinese freshwater pearls, though there is an indication that the supply and price are becoming stable, a longer period of observation is required. The management believes once the buyers re-establish their confidence, the Chinese freshwater pearls will further surge in demand and boost the market.

In addition, the pearl jewelry and e-commerce business are under constant development; the Group will continue to control costs and minimize expenses to enhance the effectiveness of its operations.

Under the global economic recession, the Group continues to adopt flexible marketing strategies and integrates with various value-added services in order to completely fulfill the customers' needs and requirements.