

INTERIM DIVIDEND

The Directors do not recommend any interim dividend in respect of the six months ended 30 September, 2001 (2000: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

Business review

Results

For the six months ended 30 September 2001, turnover for the Group increased by 43.5% to HK\$618.2 million (2000: HK\$430.7 million). Profit from operations amounted to HK\$43.1 million (2000: HK\$44.2 million) while profit attributable to shareholders was HK\$22.4 million (2000: HK\$32.8 million). Basic earnings per share was HK0.420 cents (2000: HK0.912 cents).

Operations Review

Despite the substantial increase in turnover for the period under review the profit from operations fell by 2.4% compared to same period last year. The decrease was mainly due to (1) change of product mix of increase in proportion of sales of gold products of relatively lower gross profit margin; (2) increase in selling and administrative expenses; (3) adoption of more competitive pricing strategy to cope with increasing competition and to increase market share. Compared to same period last year, the gross profit margin decreased from 19.4% to 14.7%, while the selling and administrative expenses increased by 21.8% from HK\$39.5 million to HK\$48.1 million. The increase in selling and administrative expenses was mainly due to increase in size of operation and business in general, expansion of distribution network and the establishment of the “3D-Gold Tourism Exhibition Hall”.

Compared to corresponding period last year, the profit attributable to shareholders decreased by HK\$10.4 million to HK\$22.4 million. This was mainly due to respective increase in 1) the share of losses of associates and provision for doubtful receivables from an associate by HK\$4.9 million; and 2) interest expenses by HK\$5.7 million for the period. Increase in inventories and fixed assets for expanding distribution network and the “3D-Gold Tourism Exhibition Hall” for the period under review caused a corresponding increase of bank borrowings and interest expenses when compared to same period last year.

Markets

Mainland China and Hong Kong remains as the Group's largest market. For the period under review, the Mainland China and Hong Kong market accounted for 65% of the Group's total turnover and generated HK\$403.6 million in sales. Compared with same period last year, sales in Mainland China and Hong Kong market grew by 61.8% for the period under review. The upsurge in total sales of Mainland China and Hong Kong was mainly due to:

- (1) enhanced popularity of the Group's products and more extensive market recognition of the Group's brands in Mainland China and Hong Kong;
- (2) expansion of distribution network for retail business by –
 - (a) increasing the number of "3D-Gold" and "La Milky Way" chain stores in Mainland China;
 - (b) establishment of sales operations in large department stores and shopping malls in Hong Kong for selling products under the registered brand name "3D-Gold" and "La Milky Way";
- (3) substantial increase of tourists visiting the Group's "3D-Gold Tourism Exhibition Hall" opened in Hong Kong since January 2001; and
- (4) the growing demand for luxurious brand name gold and jewellery products in Mainland China, which was resulted from the country's steady economic growth.

For the six months ended 30 September 2001, sales contribution from Southeast Asia and other markets (including the United States of America and Europe) accounted for 16% and 19% of the Group's total turnover respectively. Sales to Southeast Asia increased by 66% while sales to other markets (including the United States of America and Europe) decreased by 5% compared to same period last year.

Products

	Contribution to sales				Percentage change	
	Six months ended 30 September				for 2001/2002 over	
	2001		2000		2000/2001	
	<i>HK\$ million</i>	%	<i>HK\$ million</i>	%	%	
Gold products	458	74%	228	53%	+101%	
Other precious metal products	51	8%	101	23%	-50%	
Jewellery products	107	17%	101	23%	+6%	
Others	2	1%	1	1%	-%	
Total	618	100%	431	100%	+43%	

During the period under review, gold products, which remained as the Group's core product, accounted for 74% of the Group's total turnover. Sales of gold products substantial increase over the same period last year due to the tremendous demand of Mainland China resulting from its strong economic situation and rising living standards.

Awards and technological achievements

The Group devotes considerable efforts in developing advanced production technology, and is renowned for its innovative product designs. The Group's technological achievements and product designs receive much acclaim from industry players and have won numerous awards and prizes in both international and local competitions in the past years.

In the current financial period, the "Gold and Jewellery Environmental Friendly Washroom" in the Group's 3D-Gold Tourism Exhibition Hall has been admitted by Guinness World Records as "Keeper of the Guinness World Records – The Most Expensive Bathroom" and "Keeper of the Guinness World Records – The Most Expensive Toilet". The year 2001 is the second year the Group being awarded the HKPC Certificate of Merit in Productivity by the Hong Kong Productivity Council.

In addition to the above achievements, the Group won the following awards:

- HKMA/TVB Award for Marketing Excellence 2001
Citation for Innovation
- 2001 Grand Competition of Taiwan & Hong Kong Jade Jewelry Design
HKJJA Chairman's Award
Fine Design Award (5 awards) and Honorary Mention
- The 4th Buyer's Favorite Diamond Jewelry Design Competition 2001
Necklace-Gold Prize, Bracelet-Award of Merit, Ring-Award of Merit

Future prospects

To cope with the development goal formulated for the year 2001/2002, the Group will continue to promote its brands, expand its retail business in Mainland China and Hong Kong and explore potential market aggressively.

With extensive experience of producing corporate giftware in cooperation with various major institutions in the past, and the unparallel business opportunities as generated from Beijing being become the hosting city of 2008 Olympics and the entry of People Republic of China into the World Trade Organization, the Group is optimistic for further promotion of its brands and business. To enhance its brands will enable the Group to improve its market competitiveness, enlarge its revenue base and safeguard growth of its business and profit in the future. As the "3D-Gold Tourism Exhibition Hall" has evolved to become a new tourist spot in Hong Kong, and as the Hong Kong Special Administrative Region government continues to promote tourism in Hong Kong and increase the quota imposed to the Mainland China visitors, the Group is confident that its local retail business will continue to grow. Moreover, the Group will capture the market rhythm and adopt flexible market strategy and prudent investment policy, so as to establish "3D-Gold" and "La Milky Way" chain stores in the Mainland China and Hong Kong and expand the distribution network. The Group expects such move will further increase the revenue source of the retail business in both Mainland China and Hong Kong.

In order to ensure the uniqueness in design and the excellent quality of its product, the Group will continue to invest in technological research and development, and develop new production technology and more cost efficient production model.

Financial position

As at 30 September 2001, the Group maintained a current ratio of 1.41 (31 March 2001: 1.42) while its total debt to equity ratio was 1.06 (31 March 2001: 1.05). The latter was calculated by dividing the total liabilities of HK\$558.1 million (31 March 2001: HK\$530 million) by the total shareholders' equity of HK\$529 million (31 March 2001: HK\$506.6 million).

The Group's bank borrowings as at 30 September 2001 amounted to HK\$419.1 million (31 March 2001: HK\$391.1 million), while undrawn banking facilities amounted to HK\$46.4 million (31 March 2001: HK\$38.1 million). With its internally generated cash flows, unutilized banking facilities and other financial resources, the Group has confidence in meeting the funding needs of its business activities and development projects.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2001, the directors of the Company had the following beneficial interests in the shares of HK\$0.01 each in the capital of the Company within the meaning of the Securities (Disclosure of Interests) Ordinance ("the SDI Ordinance"), as recorded in the Register of Directors' Interests required to be kept by the Company pursuant to Section 29 of the SDI Ordinance:

The Company

	Number of shares		Total
	Family interest	Corporate interest	
Mr. Lam Sai Wing (Note a)	–	1,674,067,500	1,674,067,500
Ms. Chan Yam Fai, Jane (Note b)	1,674,067,500	–	1,674,067,500
Mr. Wong Kwong Chi (Note d)	–	688,432,500	688,432,500

Note a Mr. Lam Sai Wing ("Mr. Lam") through Good Day Holdings Limited and a nominee is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of S.W. Lam, Inc. ("SWL"), SWL is entitled to exercise or control the exercise of one-third or more of the voting power at general meetings of Quality Prince Limited ("QPL"), QPL holds shares in the Company. Accordingly, Mr. Lam is deemed to be interested in all shares in the Company held by QPL.

Note b Ms. Chan Yam Fai, Jane is the wife of Mr. Lam.

Note c The shares referred to herein related to the same parcel of shares referred to in Note a.

Note d Phenomenal Limited holds 688,432,500 shares in the Company and Mr. Wong Kwong Chi is a director of Phenomenal Limited.

Associated corporations

	Name of corporation	Personal interest	Total
Mr. Lam Sai Wing	Hang Fung Jewellery Company Limited	1 Class A (non-voting) ordinary (<i>Note e</i>)	1
	Kai Hang Jewellery Company Limited	8,000 Class A (non-voting) ordinary (<i>Note e</i>)	8,000
Ms. Chan Yam Fai, Jane	Hang Fung Jewellery Company Limited	1 Class A (non-voting) ordinary (<i>Note e</i>)	1
	Kai Hang Jewellery Company Limited	2,000 Class A (non-voting) ordinary (<i>Note e</i>)	2,000

Note e Class A (non-voting) ordinary shares have no voting rights, are not entitled to dividends unless dividends paid to holders of Class B (voting) ordinary shares exceed HK\$900,000,000,000 in each financial year, and are not entitled to distribution of the companies' assets unless each Class B (voting) ordinary shareholder has been returned its paid up capital together with a premium of HK\$900,000,000,000. The Class B (voting) ordinary shares have voting rights and are entitled to dividends and distribution of the companies' assets.

Save as disclosed above, none of the other directors or their associates had any beneficial interests or other interests in the share capital of the Company and its associated corporation as defined in the SDI Ordinance.