

OPERATIONS REVIEW

2001 was a year of turmoil worldwide leading to sharp decline in profitability for many businesses, including a number of entities in the fashion accessory sector. In order to deal with the changes in the economic environment, several large luxury fashion houses have shifted their business strategy from expansion through acquisition towards reduction of investments and maximization of returns on core assets.

Since our listing in July 1998 up to 2000, we have been focusing on building up our portfolio of established brandnames for jewellery, including Esprit, Goldpfeil, Kazto, Pierre Cardin, and Yamato (Perlen), which set a platform to further grow our core business.

2001 was essentially a time to focus on product and business development to prepare for the challenges ahead of us due to the worsening economic environment prevailing throughout the period. In retrospect, this development strategy proved to be appropriate and we did not get caught up in the craze of acquiring potential businesses/brandnames at inflated valuations.

We have been actively investigating opportunities within our operations with a view to capitalizing upon our existing internal resources. To this end, we have been extending our product lines for our renowned brandnames. Our strong platform of enriched brandnames positions us well to strengthen our status as a leading vertically integrated powerhouse in the jewellery consumer product segment.

During 2001, we continued our ongoing efforts to capitalize upon our dominant presence in Europe as a trendsetter in designing, manufacturing and distributing innovative and high quality jewellery. Our status as a trendsetter in the fashion accessory industry has once again been recognized with Esprit Jewel being ranked a top three bestseller in the trendy jewellery segment by German retailers in 2001, the fourth consecutive year we have been granted this honour. During the Inhorgenta Fair (the largest watch and jewellery fair in Germany) and Basel Fair (the world's largest watch and jewellery fair) held in February and April 2002, Esprit Jewel has taken a strong lead in the fashion jewellery segment.

We are confident that our appointment as exclusive distributor for MEXX Jewel in Germany and Austria and exclusive licensee for JOOP! jewellery worldwide in 2001 will continue to bring the latest trend for fashion conscious consumers in the jewellery segment. The encouraging response to MEXX Jewel and JOOP! jewellery in the Inhorgenta Fair and Basel Fair is a direct endorsement of our role as a trendsetter.

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Our manufacturing support continues to strengthen through the recent joint venture with an Israeli diamond supplier group, for servicing our upscale and luxury jewellery lines, including Kazto and Jacquelin collections. Keimothai factory has improved its processing capability to lend greater support to the Group's upscale diamond and gold lines, in particular for the US operations. Our Speidel factory located in China has further extended its expertise in the areas of silver and fashion jewellery, in addition to its established gold electroforming process, which will be made available for supporting the US market.

Jacquelin Grosser-Samuels, our deBeers award-winning designer, in addition to overseeing our US jewellery operations, is being appointed a member of the Keimothai factory. This arrangement is consistent with our vision of having design, product development, production and distribution vertically integrated in a cost-effective and efficient manner for the benefit of the Group and our customers. With the enhanced in-house production support, we are able to bring to life the innovative creations of our designers.

After acquiring Kazto, we are honored that our US team has made the brand well accepted into the elite US couture jewellery club, and this recognition has brought us increasing attention from both US retailers and investors. With a view to further enhancing the prestige of the Kazto name, a new design team has been put in place to meet the requirements of customers that have increased threefold in number in the two years since our acquisition of the brand. This demonstrates the Group's expertise in brand building and network establishment.

Abel & Zimmermann, our German subsidiary acquired in September 2001, makes 60% of its sales to exclusive jewelers in the US. Its high quality craftsmanship and unique one-of-a-kind designs are complementary to the concept for Kazto and Jacquelin collections. These upscale brand names are being introduced to an enlarged customer portfolio, with synergies being realized.

Over the past several years, we have gained valuable knowledge and experience of the US distribution and retail environment, and have set the platform and direction to focus our efforts on a "branded product approach" for this market. In the US, we are focusing on the upscale prestigious sector of the jewellery market, which our market research has determined is a good segment for our entry into the US market. We are working towards bringing up awareness of our Group with our brandnames such as Kazto, Jacquelin and Abel & Zimmermann. We have been establishing relationships with upscale department stores and retail stores that are in line with the image of these names and such presence in the US will enhance our international brands' distribution in Europe and Asia.

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Goldpfeil jewellery collection is planned for launch in the 4th quarter of 2002, and is expected to capture world attention primarily from discerning consumers in Japan, Hong Kong, Europe, the Middle East and the US. We are confident that our distinguished Goldpfeil jewellery collection will meet the demand of brand conscious US consumers. The 150-year history, superior quality, elegance and innovative use of materials set the trend for Goldpfeil to become a leading prestigious jewellery name in the US, in complement to Europe and Asia.

We intend to extend our distribution presence in the US through alliances which are of strategic fit to our corporate vision. This will lead to an increase in in-house production and product development which will be handled by the Keimothai factory for the precious and upscale jewellery collection, and the Speidel factory in China for the fashion and silver / fine jewellery segment. The shift from bought-in-finished products to in-house production is expected to increase our overall profit margin and lead to an enhanced supply lead-time for the benefit of the Group and our customers.