

## **INTERIM DIVIDEND**

The board resolved not to pay an interim dividend for ordinary shares of the Company for the six months ended 31 August 2001 (2000: Nil).

## **BUSINESS REVIEW AND PROSPECTS**

Turnover for the six months ended 31 August 2001 was HK\$465.5 million (2000: HK\$577.2 million). The loss for the period was HK\$21.5 million (2000: HK\$10.4 million). The result from operations included a provision for loss of HK\$6.1 million resulting from rental differential of a sub-leased property and a provision for a loan receivable of HK2.1 million.

The period under review was affected by the continuing difficult conditions in the retail market and weakening tourist spending in Hong Kong. In addition, our turnover and operating results were temporarily affected as the Group took steps to reposition its business in Mainland China.

During the period under review, human resources, financial policies and charges on group assets do not materially differ from the information disclosed in the last annual report.

We have focused our efforts on strengthening the competitiveness of our jewellery business. The following specific positive actions have been taken.

- The continuing disposal of our non-core assets has realized HK\$43 million. All proceeds were used to reduce bank debt. The total bank indebtedness has been reduced to HK\$298.9 million from HK\$352.7 million since 28 February 2001, a reduction of HK\$53.8 million. However, gearing (being the ratio of interest-bearing borrowings less cash and bank balances to net asset value) has increased from 2.7 times to 3.2 times as a result of the loss of the period. Up to the date of this report, the borrowings have been further reduced to HK\$290 million.
- Discussions with our preference shareholder are now at an advanced stage and we are confident that the investments will be restructured and the preference shares will be redeemed or cancelled without any cash payment. The Company will make an announcement when a definitive agreement is reached with the preference shareholder.
- Our new factory in Beijing is now in operation. This is our first strategic step to improve further the craftsmanship of our jewellery pieces for sale in Mainland China.

**BUSINESS REVIEW AND PROSPECTS** *(continued)*

- A series of high profile marketing activities helped rebuild the confidence of the local consumers towards our brand. Shop management has also been strengthened. It is encouraging to see that our Hong Kong retail turnover in October registered a double digit growth from last year with the same number of outlets but a reduced headcount even though the present outlook for the retail industry is bleak.
- Our Hong Kong and Beijing flagship stores with a totally new image are scheduled to open in the last quarter of this year. The new corporate logo with an international appeal will be launched simultaneously to boost our brand.
- While we usually maintain a higher inventory level for the month of August due to seasonality, inventory level for August this year was maintained at a similar level to February. Compared with the same period of last year, inventory value decreased by 14%. We shall continue to monitor closely our inventory level and strengthen our balance sheet.
- A cost reduction program is currently under way to review the cost structure of all business units in the Asia-Pacific region. In addition, all labor intensive administrative functions will be progressively relocated to nearby cities in Mainland China, with the objective of reducing operating costs and improving efficiency.

The impact of the World Trade Center incident has created many uncertainties for the future of the global economy and the inevitable slowdown of economy in the Greater China region. However, China's accession to the World Trade Organization offers grounds of optimism and opportunities for the Group's business in Mainland China. We firmly believe that our current efforts to strengthen our long-term competitiveness will pay off and better equip the Group to meet future challenges.

