

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

During the year ended 30 September 2002, the turnover of the Group was about HK\$267,158,000, representing an increase of about 36.5% as compared with the previous year. The increase in turnover of the Group was mainly attributable to the growing demand for the Group's products and the introduction of a variety of high-end diamond products, which was in line with the prevailing market trend. The net profit from ordinary activities attributable to shareholders was about HK\$40,327,000, representing an increase of 32.8% over the previous year. The gross profit margin and the net profit margin of the Group remained fairly stable at about 30.1% and 15.1% respectively during the year.

The operating expenses net of other revenue and other than those incurred for research and development amounted to approximately HK\$28.0 million (2001: HK\$20.0 million). The percentage of these expenses to turnover was approximately 10.5% (2001: 10.2%), representing an increase of approximately 2.9% as compared with last year.

For the year ended 30 September 2002, the Group spent approximately HK\$3.7 million (2001: HK\$2.8 million) in the research and development of jewellery products, which amounted to an increase of approximately 32.1% as compared with last year. This research and development expenditure is recognized as expenses when incurred.

For the year ended 30 September 2002, the Group invested approximately HK\$4,281,000 (2001: HK\$7,701,000) in additional machinery, furniture, fixtures and office equipment. The newly acquired assets have strengthened the production capability of the Group.

Products manufactured by the Group are primarily sold to markets in the US, Europe, the Middle East and South East Asia. For the year ended 30 September 2002, the US is the largest market of the Group's products and sales to the US accounted for about 57.3% (2001: 59.7%) of the Group's turnover. Sales in Europe accounted for about 31.3% (2001: 29.5%) of the Group's turnover. The remaining sales of the Group's products were related to the markets in the Middle East and South East Asia and accounted for about 11.4% (2001: 10.8%) of the Group turnover. In view of the slowdown in the US economy, the Group has placed more marketing efforts in the development of markets in Europe, the Middle East and South East Asia.

APPLICATION OF PROCEEDS, LIQUIDITY AND FINANCIAL RESOURCES

The Group raised net proceeds of about HK\$39 million ("Net Proceeds") net of related expenses in connection with the listing of the Company's shares on the Stock Exchange on 3 September 2002. As stated in the prospectus ("Prospectus") of the Company dated 22 August 2002, the Board intended to achieve its business goals through the implementation of the following with the Net Proceeds raised:

- as to about HK\$14 million, for the upgrading of the Group's machinery such as automatic wax modelling machine, computer aided design software and automatic vacuum pressure casting machines;
- as to about HK\$7 million, for the expansion of the Group's marketing force and sales network;

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*



- as to about HK\$7 million, for the development of new products; and
- as to the balance of about HK\$11 million, as general working capital for the Group.

As at 30 September 2002, about HK\$1.9 million has been used for the expansion of the Group's marketing force and about HK\$1.2 million has been incurred to develop new products. The balance of the Net Proceeds of approximately HK\$35.9 million was placed on short-term deposits with banks in Hong Kong as at 30 September 2002. The actual and intended applications of the Net Proceeds are consistent with the plans as set out in the Prospectus.

With strong net cash inflow from operating activities of approximately HK\$30 million and the Net Proceeds of approximately HK\$39 million, the liquidity and financial position of the Group improved substantially.

As at 30 September 2002, net current assets of the Group amounted to about HK\$105.9 million (2001: HK\$27.8 million) comprising inventories of about HK\$35.5 million (2001: HK\$24.3 million), trade receivables of HK\$51.2 million (2001: HK\$36.0 million), other receivables of about HK\$3.7 million (2001: HK\$3.8 million), cash and bank balances of about HK\$79.4 million (2001: HK\$3.1 million) and current liabilities of about HK\$63.8 million (2001: 39.4 million).

The increase in inventories and trade receivables were in line with the growth of turnover. The Group's trade debtor turnover, inventory turnover and trade creditor turnover period were 70 days, 69 days and 48 days respectively and the turnover periods are consistent with the Group's respective general policy on credit terms granted to trade debtors, inventory/purchasing and trade creditors.

The capital structure of the Company only consists of share capital. As at 30 September 2002, the shareholders' equity of the Group amounted to about HK\$120.3 million. Total interest bearing borrowings of the Group amounted to about HK\$15.9 million and they were not at fixed interest rates. Approximately 94.9% of the total interest bearing borrowings as at 30 September 2002 was repayable within one year. As at 30 September 2002, the Group's gearing ratio represented by the interest bearing borrowings as a percentage of the Group's shareholders' equity was about 13.2% (2001: 12.8%).

The sales and purchase of the Group's products and raw materials are mainly denominated in US dollars and Hong Kong dollars. The cash and cash equivalents and interest bearing borrowings of the Group are denominated in US dollars and Hong Kong dollars. The Group's exposure to fluctuations in foreign exchange rates is minimal and the Group does not engage in any hedging contracts.

As at 30 September 2002, the Group did not have any significant capital commitments (2001: Nil).

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The Group did not have any significant contingent liabilities as at 30 September 2002 (2001: Nil).

As at 30 September 2002, the Company has given guarantees in favour of certain banks to the extent of HK\$13,500,000 in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2002, the banking facilities utilised by these subsidiaries amounted to approximately HK\$9,910,000. As at September 2002, a fixed deposit of approximately HK\$758,000 of the Group was pledged to secure the Group's banking facilities.

EMPLOYEE AND EMPLOYMENT POLICIES

As at 30 September 2002, the Group had approximately 35 employees with remuneration of approximately HK\$8,875,000 for the year under review. The Group's emolument policies are formulated on the performance of individual employee and will be reviewed regularly every year.

The Group has established a share option scheme for its employees and other eligible participants with a view to provide an incentive to or as a reward for their contribution to the Group.