

# Management Discussion and Analysis

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## FINANCIAL RESULTS

The Group's turnover for the year was approximately HK\$8,571 million representing 46% increase from approximately HK\$5,864 million for the previous year. The significant increase in the turnover was mainly attributable to the additional source of gold supplies obtained by the gold bullion operation. However, the jewellery operation of the Group only recorded a turnover of approximately HK\$59 million for the year representing a 44% decrease from HK\$105.4 million for the previous year as a result of the softened economy in Hong Kong and high unemployment causing to a poor sentiment in consumption.

For the year ended 30 April 2002, the Group recorded a net loss attributable to shareholders of HK\$1,042.3 million mainly resulting from certain provisions for impairment for approximately HK\$887.6 million and a provision for doubtful debts of HK\$80 million. Included in the provisions for impairment, HK\$700 million provision for impairment of goodwill was made for the business of the jewellery retail network in which a number of investment vehicles held by the associates of the Group through contractual arrangement hold profit-sharing interests ("Jewellery Retail Network"). Such provision for impairment of goodwill was determined based on a business valuation performed by an independent professionally qualified valuer.

In comparison with the unaudited results for the year ended 30 April 2002 as announced on 19 September 2002, the following are the major adjustments made in the audited results for the year:

- Provision for impairment of goodwill of approximately HK\$57.7 million arising on acquisition of certain subsidiaries which had been previously eliminated against capital reserve
- Provision for impairment of long term investments of approximately HK\$13.6 million which was under-provided in the unaudited results
- Provision for impairment of fixed assets of HK\$13.5 million
- Adjustments for recognition of operating loss of approximately HK\$42 million in the unaudited results
- Provision for tax of approximately HK\$28.4 million which was under-provided in the unaudited results

## BUSINESS REVIEW

### Hong Kong

The second half of Year 2001 had spotted an increase in gold price movements which prevailed an upward trend throughout the year 2002. The investment markets had once again taken the precious metal markets into consideration and there had been more participation in the gold investment market since then. On the other hand, the Group also faced increased competition from competitors who would like to benefit from the increased activities in the gold markets as well and given the fundamental slowdown of the US economy affecting other external economies, demand for gold and jewellery had also been affected.

The jewellery retail business of the Group in Hong Kong continued to face the softened consumer purchasing power in view of sustained high unemployment and slowdown in Hong Kong economy. Nevertheless, the Group is confident of the recovery of the economy and that the jewellery retail business of the Group will benefit from it thereon.

# Management Discussion and Analysis *(Continued)*

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## China

During the year under review, the Jewellery Retail Network not only contributed a cash distribution of approximately HK\$94 million to the Group but also further enhanced the knowledge of the management in running its jewellery franchise business in China as well as the logistic operation of retail business in China.

With the experience further gained from the Jewellery Retail Network, the Group has also introduced its “Diamond Link” as a franchised jewellery brand to China in April 2002. As the product range of Diamond Link focuses on the specialty of the diamond and platinum jewellery with its market niche, it has been successfully launched to have three franchised outlets in Shanghai, Changchun and Harbin respectively. Moreover, various negotiations with the potential franchisees have also been commenced for opening of franchised outlets in Chengdu, Qingdao, Nanjing, Beijing, Dalian, Shenzhen, Qinhuangdao, Xian, Shenyang and Wuhan. As the initial response to the franchise of Diamond Link is encouraging, the Group is confident in establishing a firm presence in the China jewellery market.

In June 2002, the Company entered into an agreement with the National Integrated Company of Hualian Commerce Buildings, Limited (全國華聯商廈聯合有限責任公司) (“Hualian”) for the formation of a strategic alliance to further expand the gold and jewellery operations in China. Hualian was established in 1994 and became the core enterprise of the Hualian Group. Hualian Group is made up of 51 member units concentrated mainly in the eastern part of China and the principal activity of the Hualian Group is to operate a chain of department stores and supermarkets.

In September 2002, the Company continued to be the link to enhance the information and knowledge exchanges between international and China gold industry by organizing The 6th Annual RNA China Gold and Precious Metals Conference in Shanghai which was attended by hundreds of representatives of gold and jewellery enterprises from China, Hong Kong and other international bullion institutions and jewellers. Renowned speakers from the international gold industry were invited to share insights to the continued liberalization of the China gold industry.

## Penang, Malaysia

In view of the slow economic recovery of the region, sales activities in Malaysia were slowed down. Nevertheless, the operations were able to sustain and are looking forward to pick up once the fundamental demand improves.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 April 2002, the Group had bank borrowings of HK\$227.1 million, other short term borrowings of HK\$46.2 million, convertible notes of HK\$129.2 million, promissory notes of HK\$39 million and convertible bonds of HK\$84.9 million. Of these borrowings, approximately HK\$227.1 million as secured by a charge over certain of the Group’s inventories, investment securities and properties and approximately HK\$430.4 million was repayable within one year. The current ratio of the Group as at 30 April 2002 was improved to 0.45 based on the total current assets of HK\$425.8 million and the total current liabilities of HK\$943.9 million in comparison with that in the previous year at 0.40. Calculated on the basis of the Group’s net borrowings after deduction of cash and bank balances of HK\$11.4 million and gold bullion of HK\$74.5 million over shareholders’ fund of HK\$621.5 million, the Group had a gearing ratio of 0.71 as at 30 April 2002.

## Management Discussion and Analysis *(Continued)*

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During the year under review, the Group had raised an aggregate sum of approximately HK\$401.5 million by placement of new shares of HK\$163.3 million and issue of convertible bonds of HK\$238.2 million for working capital and debt reduction. Of these convertible bonds, approximately HK\$153.3 million was converted into ordinary shares in the Company and the outstanding balance as at 30 April 2002 amounted to HK\$84.9 million.

As discussed in the Chairman's Statement and note 2 to the financial statements, the Group is undergoing debt restructuring with reference to the announcements dated 12 March 2003 and 15 April 2003. It is in the opinion of the directors that, if the debt restructuring is successfully implemented, the total liabilities as at 27 March 2003 could be reduced by HK\$322 million, equivalent to approximately 28% of the total indebtedness as at 27 March 2003. The net asset value of the Group would be improved as well by the same amount accordingly.

### EMPLOYEES

As at 30 April 2002, the Group had 168 employees and the total staff costs including directors' remuneration amounted to HK\$54.8 million for the year ended 30 April 2002.