

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

During the year ended 30 September 2003, the turnover of the Group was about HK\$259.6 million, representing a decrease of about 2.8% as compared with the previous year. The decrease in turnover of the Group was mainly due to the worsened economy after the outbreak of SARS especially during the second half of the year. The net profit from ordinary activities attributable to shareholders was about HK\$31.8 million, representing a decrease of 21.1% over the previous year. Gross profit margin remained fairly stable at approximately 30.3%, while net profit margin was approximately 12.3% compared to that of 15.1% last year.

The operating expenses net of other revenue and other than those incurred for research and development amounted to approximately HK\$29.1 million (2002: HK\$28.0 million). The percentage of these expenses to turnover was approximately 11.2% (2002: 10.5%), representing an increase of approximately 6.7% as compared with last year.

For the year ended 30 September 2003, the Group spent approximately HK\$8.8 million (2002: HK\$3.7 million) in the research and development of jewellery products, which amounted to an increase of approximately 137.8% as compared with last year. This research and development expenditure is recognized as expenses when incurred.

For the year ended 30 September 2003, the Group invested approximately HK\$53.9 million (2002: HK\$4.3 million) in additional machinery, furniture, fixtures, office equipment and motor vehicles. The newly acquired assets have strengthened the production capability of the Group.

OPERATIONAL REVIEW

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 2003, the US is the largest market of the Group's products and sales to the US accounted for about 54.3% (2002: 57.3%) of the Group's turnover. Sales in Europe accounted for about 32.5% (2002: 31.3%) 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 13.2% (2002: 11.4%) of the Group's turnover. In view of the signing of CEPA, the Group has placed more attention to explore the business opportunities and marketplace in the People's Republic of China.

In the year ahead, the management would remain focused to further build on the Group's strengths and be responsive to the ongoing changes of the operating environment.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2003, the Group has fully applied the net proceeds in connection with the listing of the Company's shares on The Stock Exchange of Hong Kong Limited as follows: (i) about HK\$14 million has been used for the addition of machinery; (ii) about HK\$7 million has been used for the expansion of the Group's marketing force; (iii) about HK\$7 million has been incurred to develop new products; and (iv) about HK\$11 million was applied as general working capital for the Group. The actual applications of the net proceeds are consistent with the plans as set out in the prospectus of the Company dated 22 August 2002.

As at 30 September 2003, net current assets of the Group amounted to about HK\$87.2 million (2002: HK\$105.9 million) comprising inventories of about HK\$52.5 million (2002: HK\$35.5 million), trade receivables of about HK\$54.5 million (2002: HK\$51.2 million), other receivables of about HK\$7.2 million (2002: HK\$3.7 million), cash and bank balances of about HK\$57.4 million (2002: HK\$79.4 million) and current liabilities of about HK\$84.4 million (2002: HK\$63.8 million).

The increase in inventories and trade receivables was due to the gradual relief from SARS in the last quarter of the year. Along with the improvement of general economic climate, customers released those sales orders piled up during the SARS period with processing schedule squeezed at the end of the year. The Group's trade debtor turnover, inventory turnover and trade creditor turnover period were 77 days, 106 days and 29 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.

For the year ended 30 September 2003, the Group principally financed its operations and investing activities by its internal resources and interest bearing borrowings. As at 30 September 2003, the shareholders' equity of the Group amounted to about HK\$152.1 million. Total interest bearing borrowings of the Group amounted to about HK\$37.6 million and they were not at fixed interest rates. All of the total interest bearing borrowings as at 30 September 2003 was repayable within one year. As at 30 September 2003, the Group's gearing ratio represented by the interest bearing borrowings as a percentage of the Group's shareholders' equity was about 24.7% (2002: 13.2%).

The sales and purchases 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, Hong Kong dollars and Renminbi. The Group's exposure to fluctuations in foreign exchange rates is minimal and the Group does not engage in any hedging contracts.

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As at 30 September 2003, the Group did not have any significant capital commitments (2002: Nil). The Group did not have any significant contingent liabilities as at 30 September 2003 (2002: Nil).

As at 30 September 2003, the Company has given guarantees in favour of certain banks to the extent of HK\$39.5 million in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2003, the banking facilities utilised by these subsidiaries amounted to approximately HK\$37.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(continued)*

EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2003, the Group had approximately 36 employees with remuneration of approximately HK\$8.7 million 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 providing an incentive to or as a reward for their contribution to the Group. During the year under review, options to subscribe for an aggregate of 65,000,000 shares in the Company have been granted under the share option scheme.

Given the above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2003 interim report.