

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

During the year ended 30 September 2004, the turnover of the Group recorded at approximately HK\$354.0 million, representing an increase of about 36.4% as compared with the previous year. The upsurge in turnover of the Group for the year was collaborated to the strenuous efforts of the management through active participation and marketing promotion in a series of major international jewellery trade shows throughout the year as contrast to the adverse effect of SARS in previous year. The net profit from ordinary activities attributable to shareholders was about HK\$47.0 million, representing an encouraging increase of approximately 47.8% over the previous year. The gross profit margin of the Group remained at about 30.9%. The net profit margin for the year was approximately 13.3%, which represent an increase of approximately 8.1% as compared with that of 12.3% last year.

The operating expenses net of other revenue and other operating expenses were amounted to approximately HK\$44.3 million (2003: HK\$29.1 million). The percentage of these expenses to the turnover was approximately 12.5% (2003: 11.2%), representing an increase of approximately 11.6% as compared to prior year.

For the year ended 30 September 2004, the Group has spent approximately HK\$5.3 million (2003: HK\$8.8 million) in the research and development of jewellery products. The research and development costs, embedded within other operating expenses, has shown a decrease of approximately 39.8% as compared to prior year. The cause of the decrease was a large number of research and development programs being carried out in prior year in the course of developing new product designs and varieties along with enhancement of product qualities.

The Group has further invested approximately HK\$16.3 million (2003: HK\$53.9 million) to acquire additional machinery, furniture, fixtures and office equipment in the course of expanding the production capacity of the Group.

OPERATIONS REVIEW

Products manufactured by the Group are primarily sold to the overseas markets in the US, Europe, the Middle East and South East Asia. For the year ended 30 September 2004, the US is still the largest market of the Group's products and sales to the US accounted for about 52.8% (2003: 54.3%) of the Group's turnover. Sales in Europe accounted for about 36.6% (2003: 32.5%) 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 10.6% (2003: 13.2%) of the Group's turnover. The actual implementation of CEPA during the year has set the Group to begin placing more emphasis to explore new commercial opportunities in the wholesaling and retailing businesses in the PRC.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

With the net cash inflow generated from operations of approximately HK\$38.7 million during the year under review, and the continuous financial support provided by banks, the Group was able to maintain healthy liquidity and financial position.

As at 30 September 2004, the Group has further improved its net current assets position from HK\$87.2 million to HK\$126.3 million. The net current assets comprise of inventories of HK\$81.7 million (2003: HK\$52.5 million), trade receivables of about HK\$86.3 million (2003: HK\$54.5 million), other receivables of about HK\$5.2 million (2003: HK\$7.2 million), cash and bank balances of about HK\$67.8 million (2003: HK\$57.4 million) and current liabilities of about HK\$114.7 million (2003: HK\$84.4 million).

Increases in trade receivables and inventories were in line with the increases in the turnover for the year and more inventories have been set aside to cater for new customers orders. In connection with improved market sentiment, a greater number of sales orders were acquired during the second half of the year as compared to the first half. The Group's trade debtor turnover, inventory turnover and trade creditor turnover period were 89 days, 122 days and 25 days respectively. These turnover periods are consistent with the respective policy of the Group on credit terms granted to trade debtors, inventory/purchasing and trade creditors.

During the year, the Group principally financed its operations and investing activities by its internal resources and interest-bearing borrowings. The capital structure of the Company solely consists of share capital. As at 30 September 2004, the shareholders' equity of the Group was amounted to about HK\$197.5 million (2003: HK\$152.1 million). Total interest-bearing borrowings of the Group amounted to about HK\$55.5 million (2003: HK\$37.6 million) and carried at commercial lending interest rates. All of the total interest-bearing borrowings as at 30 September 2004 was repayable within a year. The Group's gearing ratio for the year represented by the interest-bearing borrowings as a percentage of the Group's shareholders' equity was 28.1% (2003: 24.7%) which is relatively well below the market average. On the whole, the Group has maintained a stable gearing ratio during the year under review.

The sales and purchases of the Group are mostly denominated in US dollars and Hong Kong dollars. The cash and cash equivalents and interest-bearing borrowings of the Group are denominated in Hong Kong dollars, US dollars and Renminbi. Since the Group's exposure to fluctuations in foreign exchange rates is minimal, the Group had not considered using hedging instruments to minimise the exposure to foreign currency fluctuation.

As at 30 September 2004, the Group had capital commitments of approximately HK\$3.0 million (2003: Nil). The Group did not have any significant contingent liabilities as at 30 September 2004 (2003: Nil).

Furthermore, the Company has given guarantees in favour of certain banks to the extent of approximately HK\$64 million in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2004, the banking facilities utilised by these subsidiaries were amounted to approximately HK\$55.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

2004



EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2004, the Group had approximately 36 employees with remuneration of approximately HK\$11.0 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 carrying rights to subscribe for an aggregate of 32,500,000 shares in the Company were granted to its employees 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 2004 interim report.