



FINANCIAL REVIEW

During the year ended 30 September 2005, the turnover of the Group was about HK\$430.0 million, representing an increase of about 21.5% as compared with the previous year. The increase in turnover of the Group for the year was the fruitful result of the stringent effort of the management through active participation and marketing promotion in a series of major international jewellery trade shows throughout the year. The net profit from ordinary activities attributable to shareholders was about HK\$54.2 million, representing an encouraging increase of 15.3% over the previous year. The gross profit margin of the Group was at about 28.2% which is 8.7% lower than previous year due to lower selling price. The net profit margin for the year was approximately 12.6%, which represent a decrease of 5.3% as compared with the net profit margin of 13.3% last year. Again, the lower profit margin ratio was due to lower selling price and higher cost of sales.

The operating expenses net of other revenue and other than those incurred for research and development amounted to approximately HK\$49.7 million (2004: HK\$44.3 million). The percentage of these expenses to turnover was approximately 11.6% (2004: 12.5%), which is in line with our cost budget.

For the year ended 30 September 2005, the Group spent approximately HK\$3.2 million (2004: HK\$5.3 million) in the research and development of jewellery products, representing a decrease of approximately 39.6% as compared with last year. The decrease for the current year was due to the substantial and successful completion of an extensive program last year for the development of new fashionable designs of jewellery products to increase product varieties and innovative production techniques to enhance the quality of jewellery products.

For the year ended 30 September 2005, the Group invested approximately HK\$35.5 million (2004: HK\$16.3 million) in additional machinery, furniture, fixtures and office equipment. The newly acquired assets have strengthened the production capability of the Group.

OPERATIONS REVIEW

Products manufactured by the Group are primarily sold to the overseas markets in the United States, Europe, Middle East and South East Asia. For the year ended 30 September 2005, the United States is still the largest market of the Group's products and sales to the United States accounted for about 51.7% (2004: 52.8%) of the Group's turnover. Sales in Europe accounted for about 38.3% (2004: 36.6%) 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 10.0% (2004: 10.6%) of the Group's turnover.



LIQUIDITY AND FINANCIAL RESOURCES

With the net cash inflow generated from operations of approximately HK\$52.8 million during the year under review, and the continuous financial support provided by banks, the Group was able to maintain a healthy liquidity and financial position.

As at 30 September 2005, the Group has further improved its net current assets position from HK\$126.3 million to HK\$151.7 million. The net current assets comprise of inventories of HK\$124.5 million (2004: HK\$81.7 million), trade receivables of about HK\$104.8 million (2004: HK\$86.3 million), other receivables of about HK\$7.0 million (2004: HK\$5.2 million), cash and bank balances of about HK\$72.5 million (2004: HK\$67.8 million) and current liabilities of about HK\$157.0 million (2004: HK\$114.7 million).

Increases in inventories and trade receivables were in line with the increase in the turnover for the year and more inventories have been reserved for new customer 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 inventory turnover, trade receivables turnover and trade payables turnover period were 147 days, 89 days and 20 days respectively. These turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and credit terms obtained from suppliers.

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 2005, the shareholders' equity of the Group amounted to about HK\$246.4 million (2004: HK\$197.5 million). Total interest-bearing borrowings of the Group amounted to about HK\$86.7 million (2004: HK\$55.5 million) and carried at commercial lending interest rates. All of the total interest-bearing borrowings as at 30 September 2005 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 35.2% (2004: 28.1%) 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 has not considered using hedging instruments to minimise the exposure to foreign currency fluctuations.

As at 30 September 2005, the Group did not have any capital commitments (2004: HK\$3.0 million). The Group also did not have any significant contingent liabilities as at 30 September 2005 (2004: Nil).

The Company has given guarantees in favour of certain banks to the extent of approximately HK\$198.7 million (2004: HK\$64.0 million) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2005, the banking facilities utilised by these subsidiaries amounted to approximately HK\$86.7 million (2004: HK\$55.5 million).



EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2005, the Group had approximately 38 employees with remuneration of approximately HK\$9.9 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, no options was granted.

Given the above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2005 interim report.