

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW

During the year ended 30 September 2006, the turnover of the Group was about HK\$480.4 million, representing an increase of about 11.7% as compared to 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 and our new PRC retail stores throughout the year. The net profit from ordinary activities attributable to shareholders was about HK\$57.0 million, representing an encouraging increase of 5.2% over the previous year. The gross profit margin of the Group was about 28.7% as compared to 28.2% in last year. The net profit margin of the Group for the year was approximately 11.9% as compared to 12.6% in last year.

The operating expenses net of other revenue and other than those incurred for research and development amounted to approximately HK\$58.8 million (2005: HK\$49.7 million). The percentage of these expenses to turnover was approximately 12.2% (2005: 11.6%), which is in line with our internal cost budget.

For the year ended 30 September 2006, the Group spent approximately HK\$0.3 million (2005: HK\$3.2 million) in the research and development of jewellery products, representing a decrease of approximately 90.6% as compared to last year. The decrease for the current year was due to the successful completion of an extensive program in 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 2006, the Group invested approximately HK\$9.1 million (2005: HK\$35.5 million) in property, plant and equipment.

OPERATIONS REVIEW

Products manufactured by the Group are primarily sold to the markets in the United States, Europe, Middle East and South East Asia. For the year ended 30 September 2006, the United States is still the largest market of the Group's products and sales to the United States accounted for about 46.1% (2005: 51.7%) of the Group's turnover. Sales in Europe accounted for about 39.4% (2005: 38.3%) 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 14.5% (2005: 10.0%) of the Group's turnover.



MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 September 2006, the Group has further improved its net current assets position from HK\$151.7 million to HK\$263.5 million. The net current assets comprise of inventories of HK\$214.7 million (2005: HK\$124.5 million), trade receivables of about HK\$114.7 million (2005: HK\$104.8 million), other receivables of about HK\$10.4 million (2005: HK\$7.0 million), cash and bank balances of about HK\$83.4 million (2005: HK\$72.5 million) and current liabilities of about HK\$159.7 million (2005: HK\$157.0 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 and our PRC retail stores. The Group's inventory turnover, trade receivables turnover and trade payables turnover period were 229 days, 87 days and 12 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 generally financed its operations and investing activities through a combination of shareholders' equity, internally generated cash flows and interest bearing bank borrowings. The capital structure of the Company solely consists of share capital. As at 30 September 2006, the shareholders' equity of the Group amounted to HK\$308.7 million (2005: HK\$246.4 million). The Group's total interest bearing bank borrowings as at 30 September 2006 amounted to approximately HK\$123.9 million (2005: HK\$86.7 million) representing an increase of approximately HK\$37.2 million. The interest bearing bank borrowings were mainly used for working capital purpose and carried at commercial lending interest rates. The maturity of interest bearing bank borrowings comprised approximately HK\$81.4 million (2005: HK\$86.7 million) and HK\$42.5 million (2005: Nil) repayable within 1 year and repayable more than 1 year respectively. The Group's gearing ratio for the year was 40.1% (2005: 35.2%) 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, Hong Kong dollars and Renminbi. 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 2006, the Group did not have any capital commitments (2005: Nil). The Group also did not have any significant contingent liabilities as at 30 September 2006 (2005: Nil).

The Company has given guarantees in favour of certain banks to the extent of approximately HK\$245.1 million (2005: HK\$198.7 million) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2006, the banking facilities utilised by these subsidiaries amounted to approximately HK\$123.9 million (2005: HK\$86.7 million).

MANAGEMENT DISCUSSION AND ANALYSIS



EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2006, the Group had approximately 93 employees with remuneration of approximately HK\$10.9 million for the year under review. The Group's emolument policies are formulated according to 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.

Save as disclosed above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2006 interim report.