



## **MANAGEMENT DISCUSSION AND ANALYSIS**

### **BUSINESS REVIEW**

For the period, the Group achieved a turnover of approximately HK\$283.1 million, representing a delightful increase of approximately 18.4% as compared to approximately HK\$239.2 million for the six months ended 31 March 2006. Thanks to the successful expansion strategy into the diamond jewellery retail markets in China under our own brand name, SAVANTI, and the continual robust growths in the global consumer demands of fine diamond jewellery products, the Group maintained satisfactory business growths across its various markets worldwide.

Overall, the Group's gross profit margin achieved an outstanding record of approximately 32.4%, which was attributed to the increase in the domestic sales, as well as the persistent improvements in production efficiency. Net profit from ordinary activities attributable to shareholders was approximately HK\$41.2 million in the period, increased by approximately 32.5% when compared to approximately HK\$31.1 million in the previous corresponding period. Comparing the same period as stated above, the net profit margin improved to 14.6% from the prior level of 13.0%.

The higher growth in net profit from ordinary activities was mainly driven by the higher domestic retail store counts and the increasing domestic sales turnover, despite the fact that only 9 out of 15 stores were reflecting entire six-month results for this interim period, while the remaining 6 stores recorded business results from just one month to four months.

During the period, the selling and distribution expenses of the Group amounted to approximately HK\$26.0 million (2006: HK\$17.3 million). The increase in selling and distribution expenses was mainly attributed to the Group's increased efforts being put on sales, marketing, promotion and exhibition activities.

Despite the increasingly diversified business activities, the Group's administrative expenses for the period maintained fairly stable at approximately HK\$11.6 million (2006: HK\$10.2 million), representing only a mild increase of approximately 13.7% as compared with that of the previous corresponding period.

Products manufactured by the Group were sold to well-diversified global markets, including the United States, Europe, Middle East and Asia. The Group gradually trimmed down its proportion of sales growth to the United States. During the period, the United States accounted for only 40.6% of the Group's turnover when compared to 49.9% stake in the same period in the year of 2006. Meanwhile, the sales to the Europe accounted for about 36.1% (2006: 37.5%) of the Group's turnover, and the sales to the Middle East and Asia markets accounted for about 23.3% (2006: 12.6%) of the Group's turnover.



## **FUTURE PLANS AND PROSPECTS**

Over the past year, the expeditious growing success of SAVANTI stores, the Group's wholly-owned retail chain in China, has well-exceeded management's expectations. The Group foresees, SAVANTI will continue to enable the Group to achieve double-digit growth rates in the second half of this financial year and significantly widen both of its gross and net profit margins.

Being the fastest growing part of the Group's business, SAVANTI not only reached its preliminary target of having 15 stores opened by the end of the period, but it has also reached store-level profitability at nearly all of its stores opened across China. As a result, the management of the Group has reasonable expectations to achieve another record year in 2007, in both sales turnover and profits.

Followed by the opening of the first store in JB Cityplaza, Shanghai in 2005, SAVANTI has rapidly and profitably expanded into the high-end retail markets in China. By the end of the period, SAVANTI already had 15 solely-operated stores spread across China's leading metropolitan cities, namely Shanghai, Hangzhou, Tianjin, Dalian, Harbin, Changchun, Chongqing, and Chengdu, as compared to only 4 stores at the corresponding period in the year of 2006. Over the coming future, SAVANTI will continue its triumphal pace in opening additional stores in the new and existing metropolitan cities across China.

The domestic sales of the SAVANTI stores chain provide considerably higher operating profit margins than the export business, notably 31.5% versus 19.4% in the period ending 31 March 2007. Consequently, the Group's profit margins will continue to improve as the number of SAVANTI stores increase while the domestic sales becomes a significant contributor to the Group's sales turnover.

In fact, the Group has already positioned itself to benefit from the blooming luxury retail markets in China through the successful launch of its own brand name, SAVANTI. Meanwhile, the steady growth momentum of the jewellery retail demands worldwide will continue to fuel the Group's business growth. The Group will maintain its presence in the major international Jewellery trade fairs and exhibitions so as to preserve its market shares and premier clientele.

The Group will continue its strong leading role at producing fine diamond jewellery products with elements of contemporary fashion to meet global demands, due to excellent metallurgical knowledge, stylish designs and skilled jewellery craftsmanship, while leveraging on the productive and efficient labor force in Guangdong, China.

## **LIQUIDITY AND FINANCIAL RESOURCES**

An analysis of the Group's current assets and current liabilities as at 31 March 2007 and the comparison figures as at 30 September 2006 is presented in the balance sheet with the relevant notes to financial statements.

Increases in inventories and trade receivables were in line with the increase in the turnover for the period and more inventories have been reserved for new customer orders and new retail/wholesale network. The Group's inventory turnover, trade receivables turnover and trade payables turnover period were 269 days, 76 days and 10 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.

The Group generally finances its operations through a combination of shareholders' equity, internally generated cash flows and bank borrowings. The capital structure of the Company only consists of share capital and 26,000,000 shares were issued upon exercise of share options and another 43,950,000 new shares were issued during the period. As at 31 March 2007, the shareholders' equity of the Group amounted to about HK\$376.0 million (30 September 2006: HK\$308.7 million). The Group's total bank borrowings as at 31 March 2007 amounted to approximately HK\$131.2 million (30 September 2006: HK\$123.9 million) representing an increase of approximately HK\$7.3 million. The bank borrowings were mainly used for working capital purpose and they were not at fixed interest rates. The maturity of bank borrowing comprised approximately HK\$88.7 million (30 September 2006: HK\$81.4 million) and HK\$42.5 million (30 September 2006: HK\$42.5 million) repayable within one year and repayable more than one year as at 31 March 2007 respectively. The Group's gearing ratio, represented by the bank borrowings over the Group's shareholders' equity, was approximately 34.9% (30 September 2006: 40.1%).

The sales and purchases of the Group's products and raw materials are mainly denominated in US dollars, Hong Kong dollars and Renminbi. The cash and bank balances and bank borrowings of the Group are also mainly 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.

Apart from those set out above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2006 annual report.

#### **CLOSURE OF REGISTER OF MEMBERS**

The register of members of the Company will be closed from 18 July 2007, Wednesday to 20 July 2007, Friday, both dates inclusive, during which period no transfer of shares of the Company will be registered. In order to qualify for the aforesaid interim dividend, all transfer documents accompanied by the relevant share certificate(s) must be lodged with the Company's branch registrar, Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 17 July 2007, Tuesday.

#### **DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATIONS**

As at 31 March 2007, the interests of the Directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

Director	Type of interests	Number of issued ordinary shares held	Number of underlying shares held	Total interests	Percentage of interest
Mr. Wong Chi Ming, Jeffry	Corporate (Notes)	416,000,000	–	416,000,000	54.21%



*Notes:*

- (a) The interest disclosed represents the 416,000,000 shares held by Equity Base Holdings Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Wong Chi Ming, Jeffry by virtue of Section 344(3) of the SFO.
- (b) All the interests disclosed above represent long positions in the shares of the Company.
- (c) Ms. Lui Ching Han, Magda, spouse of Mr. Wong Chi Ming, Jeffry is deemed to be interested in these shares under the SFO.

Mr. Wong Chi Ming, Jeffry is the sole shareholder of Equity Base Holdings Limited which is the controlling shareholder of the Company. Ms. Lui Ching Han, Magda, is also deemed to be interested in these shares under the SFO.

In addition to the above, certain Directors have non-beneficial personal equity interests in certain subsidiaries of the Company held in trust for the Company solely for the purpose of complying with the statutory minimum number of shareholders required for Hong Kong incorporated companies which was in force prior to 13 February 2004.

Save as disclosed above, as at 31 March 2007, none of the Directors, or their associate(s) had any interests or short positions in the shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

#### **DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES**

At no time during the period were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in the Company or any other body corporate.

#### **SHARE OPTION SCHEME**

The Company operates a share option scheme ("Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The Scheme became effective on 3 September 2002 and unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 12 August 2002.



Salient details of the Scheme are:

- (a) The maximum number of shares issuable upon exercise of the options which may be granted under the Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting;
- (b) The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Scheme, whichever is the earlier;
- (c) The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee; and
- (d) The exercise price of the share options is determinable by the directors but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

There were no outstanding share options as at 31 March 2007.

Movements in the share options under the Scheme during the period are as follows:

Eligible participants	Date of grant	Exercise price	Exercise period	Number of shares issuable under share options			
				At beginning of the period	Exercised during the period	Lapsed during the period	At end of the period
Employees (excluding Directors)	3 March 2004	HK\$0.26	3 March 2004 to 2 March 2007	19,500,000	(19,500,000)	–	–
Suppliers of goods or services and others	3 March 2004	HK\$0.26	3 March 2004 to 2 March 2007	13,000,000	(6,500,000)	(6,500,000)	–
				<u>32,500,000</u>	<u>(26,000,000)</u>	<u>(6,500,000)</u>	<u>–</u>

The weighted average closing price immediately before the date on which the options were exercised is HK\$0.59.

No share options were granted or cancelled during the period. There were no outstanding share options as of 31 March 2007. The Company did not disclose the value of such share options, since the Company considered that valuation of such share options would be subject to a number of assumptions that would be subjective and uncertain and might not be meaningful.

Since adoption of the Scheme, no share options have been offered and/or granted to the directors of the Group under the Scheme.