



“Indulgence”, the award-winning piece in the DTC’s “Diamonds: Nature’s Miracle” international diamond jewellery design contest in May 2004.

2004年5月·榮獲DTC國際鑽石商貿公司主辦的「鑽石：大自然的奇蹟」國際鑽飾設計大賽香港得獎作品「沉醉」。

# Management's Discussion and Analysis

## 管理層之討論及分析

Turnover for the year was HK\$956 million (2003: HK\$954 million), at a level similar to that of last year. The profit for the year was HK\$7.5 million (2003: loss of HK\$49.5 million), an improvement of HK\$57 million.

### BUSINESS SEGMENT

During the first five months of the financial year, retail and showrooms operation in Hong Kong were severely hit by the outbreak of SARS. Thanks to the waivers of certain provisions by the bankers under the Restructuring Agreement and the rapid response by the Group to SARS via various cost cutting measures and the redeployment of resources to the Mainland China business that were unaffected by SARS, the Group has managed to overcome this hardship. Both our retail and showroom operations in Hong Kong have recovered and improved as a result of the relaxation of independently travelling tourists from Mainland China and the rebound of the economy of Hong Kong in the second half of the financial year. We are cautiously optimistic about the outlook of the tourist industry in Hong Kong and the local economy for the current year and beyond.

本年度之營業額為956,000,000港元(2003年：954,000,000港元)，跟去年度相約，經營盈利為7,500,000港元(2003年：虧損49,500,000港元)，較去年上升57,000,000港元。

### 業務分部

本年度首五個月因SARS的爆發，對我們在香港的零售及展覽場業務帶來沉重的打擊。幸得銀行豁免了某些「重組協議」條款及本集團迅速地採取了一些措施減低成本及將資源調動至中國大陸一些沒有受SARS打擊的地區，致令本集團克服了此難關。在下半年度，中國大陸對自助旅遊的放寬及本港之經濟復甦，令我們的零售及展覽場營運得以恢復及改善。我們對本港現今以至未來的旅遊業及經濟環境抱審慎樂觀態度。



Turnover and profitability of the business in the Mainland China grew satisfactorily. The increasing affluent population of Mainland China continues to create increased demand for quality jewellery products. According to DTC, the mainland market will overtake the Hong Kong market within two years. Our local production and the lifting of import duties on diamonds has helped to improve the profitability of the operation in Mainland China. Mainland China will become the major and important source of growth for the Group going forward.

The improved retail environment in Hong Kong and the growth opportunities in Mainland China has meant that our competitors are expanding more rapidly and new competition is entering the industry. To embrace the business opportunities and to stand against the current and new competition, the Group will need to

中國大陸業務的營業額及利潤皆有令人滿意的增長。國內富裕人口之增加持續地提供了對優良品質珠寶的需求增長。根據DTC估計，中國大陸市場將會在兩年內超越香港市場。籍著本地生產及鑽石入口關稅之取消，我們的中國大陸業務利潤得以改善，中國大陸將成為本集團未來主要及重要的增長來源。

香港零售業之改善及中國大陸之增長機會吸引了競爭者的急速擴張及為此行業帶來新的競爭，為了迎合此商機及抵禦現有及新的激烈競爭，本集團需要進一步投資於增加中國大陸的銷售網絡、新廠房及更換



invest further in (i) the expansion of its retail network in Mainland China (ii) a new production plant(s) and (iii) the replacement of its information infrastructure at a faster pace than what we did in the past few years.

## DISPOSAL OF SUBSIDIARIES

In order to focus on our core jewellery business in Hong Kong and Mainland China, we ceased the non-profitable operations in Taiwan and Thailand in May 2003 and September 2003 respectively. The Group also continued to dispose of some of its non-core properties during the year. Subject to the finalization of the revised debt restructuring, except for two car parks and one unit in the Summit Building, the Group considers that its previous program of disposal of non-core properties is now complete and it does not anticipate selling any further of its properties (other than those mentioned above) going forward. The Group will continue to assess its non-core operations, and if deemed fit, dispose or close such operations to maximize its return on funds invested.

## EMPLOYEES

At the end of the financial year, the Group had approximately 957 (2003: 950) employees. Employees are rewarded on a performance basis with reference to market rates. Other employee benefits include medical cover and subsidies for job-related continuing education. The Group also has an employee share option scheme. No options were granted pursuant to the scheme during the year.

資訊科技系統，而其投資步伐會較以往數年為快。

## 出售附屬公司

為了專注於香港及中國大陸的核心珠寶業務，在二零零三年五月及九月，我們終止了在台灣及泰國無利可圖的業務。本年度，集團將會持續出售其非核心物業。如修訂中的重組協議可落實，除了位於興業工商大廈的兩個車位及一個單位外，本集團認為以往的出售非核心物業計劃現已完成，我們亦沒有打算再出售其他物業(除上述提及的物業外)。本集團將繼續評估其非核心業務，在適當的情況下，我們會出售或關閉該等業務，以達致最高的資本回報。

## 僱員

在財政年度完結時，本集團僱用約957名(2003：950名)員工，僱員之薪酬均參照員工各自之表現及與市場標準而訂定。其他僱員之福利包括醫療及與工作有關之持續進修津貼。本集團亦有提供僱員優先認股權計劃。於本年度並無按此計劃授予認股權。



Staff are provided with formal on-the-job training by external professional trainers. Experience sharing with seniors at in-house seminars and discussion groups enhance intra-departmental communications.

## PLANS FOR INVESTMENTS

Following a number of years of under investment (due to the restrictions of the debt restructuring and the generally depressed state of the economy in Hong Kong), the Group now needs to reinvest back into its core infrastructure and business to support future growth. To start this process, the Group has budgeted (but not committed) capital expenditure (committed amount subject to funding availability) for the financial year 2004/05 of HK\$26 million, where a major portion goes to renovation or relocation of outlets, expansion of outlets in Mainland China, building a new production plant(s), and investment in new information technology infrastructure. This planned capital expenditure will be financed by a combination of internal resources and the proceeds from a new issue.

## LIQUIDITY, CAPITAL STRUCTURE AND GEARING

All the Group's borrowings are denominated in local Hong Kong dollars. Interest is determined on the basis of inter-bank market rates.

As set out in the announcement dated 14 May 2004, four bank creditors of the Group ("Assigning Banks") had assigned all their rights, title and interests in the indebtedness due to them by the Group of amount HK\$210 million ("Acquired Debt") to Partner Logistics Limited during the year (and in the case of one Assigning Bank in April 2004). A revised debt restructuring agreement is in process of negotiation among the Group, the remaining three bank creditors ("Continuing Banks") and Partner Logistics Limited. It is proposed that, under the revised debt restructuring agreement, the remaining indebtedness owing to the Continuing Banks will be conditionally restructured to mature over a two to three years period on a secured basis. The Acquired Debt will be repaid after the debt of the Group payable to the respective Continuing Banks is reduced to certain thresholds. It is also conditionally contemplated that share capital of the Company will be restructured.

員工均會獲提供在職培訓，並透過與資深同事於內部研習班及研討小組互相交流工作經驗以增強部門內之溝通，及由集團以外之專業訓練人員提供與工作有關之正式訓練。

## 投資計劃

經過以往數年的投資不足後(因受債務重組及香港經濟衰退之限制)，本集團現需返回投資於核心基礎建設及業務上，從而支持未來的增長。在2004/05財政年度，本集團預算而未落實的資本開支(落實數目視乎資金情況)為26,000,000港元，主要用作裝修及搬遷店舖，擴張中國大陸的銷售點，興建新廠房及投資新資訊科技系統，此資本開支計劃將由內部資源及發行新股資金支付。

## 資產流動性、資本結構及負債比率

本集團之全部貸款均以本地港元定值，利息則按銀行同業借貸之市場息率釐定。

根據2004年5月14日的公佈，本集團的四間債權銀行(「轉讓銀行」)在本年度(其中一間「轉讓銀行」在2004年4月)將本集團欠該銀行的債務權利、擁有權及權益總額210,000,000港元(「已收購債務」)轉讓予Partner Logistics Limited。而債務重組協議的修訂現正由本集團、餘下的三間債務銀行(「持續銀行」)及Partner Logistics Limited在磋商中。在該修定債務重組協議中建議「持續銀行」在有抵押情況下重組剩餘之債務的到期日至兩至三年，及「已收購債務」於本集團應付予各間「持續銀行」之債務減至若干限額後，方須償還。計劃中，本公司將會進行資本重組。



As at 29 February 2004, the total borrowings of the Group amounted to HK\$247.4 million (2003: HK\$253.7 million) and overall reduction of HK\$6.3 million on the previous year. This reduction is represented by repayments made out of pledged rental income and the disposal of non-core properties and the disposal of a subsidiary in Thailand. The Group is required to make minimum fixed quarterly repayments of HK\$24 million on an annual basis pursuant to the Restructuring Agreement. No quarterly repayment were made during the year ended 29 February, 2004 and repayment of HK\$1,549,000 was made in May 2004. According to letters dated 21 May 2003, 2 October 2003, 20 November 2003, 19 March 2004 and 14 June 2004 issued by the representative of the participating lenders under the Restructuring Agreement, all the lenders agreed to postpone the quarterly repayments due by the Group on 7 May 2003, 7 August 2003, 10 November 2003, 27 February 2004 and the balance of repayment due on 31 May 2004 until 31 August 2004 or the completion of the revised restructuring agreement, whichever is earlier.

The profit for the year increased the shareholders fund from HK\$33.2 million to HK\$40.5 million. Gearing (ratio of interest bearing borrowings less cash and bank balances to net asset value) was 5 times (2003: 6 times).

The Group had cash balance of HK\$39 million which is unlikely to be enough to meet all its planned future working capital and capital expenditure requirements. As a result, after the substantial difficulties experienced by the Group over the last four to five years, management believe that a further restructuring of the Group's capital and borrowings together with the raising of new funds is now essential to ensure that the Group can stabilize its current financial position and rebuild its business to ensure that

截至2004年2月29日，本集團的貸款總額為247,400,000港元(2003年：253,700,000港元)，相比去年，整體減幅達6,300,000港元，此減幅為已抵押租金收入的還款、出售非核心物業及出售於泰國的附屬公司所組成。根據重組協議，本集團須於每季度償還貸款而每年最少定額償還24,000,000港元。截至2004年2月29日，我們沒有執行季度還款但在2004年5月償還了1,549,000港元。根據重組協議債權人代表於2003年5月21日，2003年10月2日，2003年11月20日，2004年3月19日及2004年6月14日發出之文件，全部債權人同意將本集團在2003年5月7日，2003年8月7日，2003年11月10日，2004年2月27日到期的季度還款及於2004年5月31日到期之餘額還款延遲至2004年8月31日或完成修改重組協議，以較早日期為準。

本年度盈利令股東資金由33,200,000港元上升至40,500,000港元。負債比率(附息銀行貸款減現金及銀行結餘與淨資產值之比率)是5倍(2003年：6倍)。

本集團現持有現金39,000,000港元，並不足以應付未來計劃中的營運資金及資本開支之需求。因此，在本集團經歷了過往四、五年的主要困難，管理層深信集團的資本及債務再重組，以及籌集新資金對穩定現時財務狀況極為重要，從而令集團重建業務，迎合競爭及茁壯成長。本集團現為應付我們的緊拙財政情況，提議進行一

the Group can meet the competition and grow and prosper going forward. The Group now needs to address its tight liquidity position and proposes to do so via a number of initiatives this year which include a capital restructuring, debt equity conversion and placement by the Group or its lender as mentioned in the announcement dated 14 May 2004. Until this is completed, the gearing of the Group will remain high as will its tight liquidity position which, in turn, will constrain growth and lead to lost opportunities. Details of the contemplated capital restructuring and other exercises will be addressed in an announcement which is to be published as soon as practicable.

### CHARGES ON GROUP ASSETS

- a) At 29 February 2004, under the Restructuring Agreement, debentures were executed by the Group in favour of its bankers and financial creditors charging, by way of fixed and floating charges, all of the undertakings, properties and assets of the Company and 17 of its subsidiaries as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers and financial creditors. Rental revenue of the Group is also charged in favour of the Group's bankers.
- b) At 29 February 2004, the Group pledged the capital contribution to a subsidiary of the Group amounting to US\$235,000 and all the benefits accruing to the pledged equity interest of 11.625% of the subsidiary to the Group's bankers and financial creditors as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers and financial creditors.
- c) At 29 February 2004, the Group pledged all rights, titles and interests in 56.46% of the entire share capital of Infinite Assets Corp. and Tse Sui Luen Investment (China) Limited and all benefits accruing to the pledged equity interest to the Group's bankers and financial creditors as security for, inter alia, all obligations and liabilities, actual or contingent, from time to time owing by the Group to the bankers and financial creditors.

連串的方案，包括在2004年5月14日的公佈內之股本重組建議、債務資本轉換建議及本集團或債權人之配售建議，在這些建議落實前，本集團的負債比率仍然處於高水平，此高負債比率及緊拙之財政情況，將阻礙我們的增長及引致失去商機。關於籌備中的資本重組及其他計劃之詳情，在可行的情況會盡早另行通告。

### 集團資產抵押

- (一) 於2004年2月29日，根據重組協議，本集團已訂立債權證，以本公司及其17間附屬公司之所有業務、物業及資產透過固定及浮動抵押付予銀行及財務債權人作為抵押，以作為其中包括本集團不時欠銀行及財務債權人之實際或或有負債及債務之抵押品。本集團之租金收益亦抵押予本集團之銀行。
- (二) 於2004年2月29日，本集團把其於一間附屬公司的235,000美元出資額及其於該附屬公司的11.625%已抵押股本權益所累計的一切利益抵押予本集團的銀行及財務債權人，以作為其中包括本集團不時欠銀行及財務債權人的實際或或有負債和債務的抵押品。
- (三) 於2004年2月29日，本集團把其於Infinite Assets Corp.和謝瑞麟投資(中國)有限公司總資本額的56.46%的一切權利、所有權和權益，及已抵押股本權益所累計的一切利益抵押予本集團的銀行及財務債權人，以作為其中包括本集團不時欠銀行及財務債權人的實際或或有負債和債務的抵押品。



## EXCHANGE RATES

During the year, the transactions of the Group were mainly denominated in local currencies, Renminbi and US dollars. The impact of the fluctuation of foreign exchange rates of these currencies is insignificant to the Group.

## CONTINGENT LIABILITIES

- (a) At 29 February 2004, the Company has issued guarantees to banks and financial creditors in respect of general banking and other credit facilities extended to certain subsidiaries of the Company amounting to HK\$248,427,000 (2003: HK\$251,433,000).
- (b) As at 29 February 2004, tax treatments adopted by the Group relating to certain offshore income and agents commission payments and promoter fees arising in prior years are being challenged by the Inland Revenue Department ("IRD"). In the event that the Group is not successful in defending these challenges, the Group may be subject to significant additional tax liabilities and possibly penalties.

Save as mentioned above, as at 29 February 2004 the Group did not have any other material contingent liabilities.

## 匯率

於本年內本集團的交易主要以本地貨幣、人民幣及美金為單位，此等貨幣的匯率浮動對本集團並無重大影響。

## 或有負債

- (a) 於2004年2月29日，本公司就銀行及財務債權人給予部分附屬公司一般銀行及其他貸款融資信貸，向銀行及財務債權人作出合共248,427,000港元（2003年：251,433,000港元）的擔保。
- (b) 於2004年2月29日，本集團對以往年度產生的某些離岸收入及代理佣金付款，以及推廣者費用的稅務處理方式受到稅務局質疑。如果本集團為這些項目答辯失敗，本集團可能須承擔大筆額外稅務負債，可能還須支付罰款。

除上述外，截至2004年2月29日，本集團並無其他重大或有負債。