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TOPAZ GROUP INC
Form 10-Q
November 18, 2002

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the quarterly period ended September 30, 2002

OR

TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934.

For the transition period from _____ to _____
Commission file number 0-27415

The Topaz Group, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Nevada

(State or Other Jurisdiction
of Incorporation or Organization)

91-1762285

(I.R.S. Employer
Identification No.)

126/1 Krungthonburi Road
Banglampoo Lang, Klongsarn
Bangkok 10600 Thailand

(Address of Principal Executive Offices)

(Zip Code)

Registrant's Telephone Number, including area code (011) 662-439-4621

- N/A -

Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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The Topaz Group, Inc. and Subsidiaries CONSOLIDATED BALANCE SHEETS

| | December 31, 2001 | September 30, 2002 |
|--|----------------------|-----------------------|
| ASSETS | | |
| CURRENT ASSETS | ----- | ----- |
| | | (Unaudited) |
| Cash and cash equivalents | \$ 351,565 | \$ 353,779 |
| Accounts receivable, net of allowance of \$788,369 and \$823,066 | 5,891,767 | 4,122,328 |
| Inventories | 19,004,800 | 24,921,342 |
| Prepaid expenses and deposits | 372,285 | 507,343 |
| | ----- | ----- |
| Total current assets | 25,620,417 | 29,904,792 |

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| | | |
|--|---------------|--------------|
| PROPERTY AND EQUIPMENT - NET | 2,308,017 | 2,469,240 |
| OTHER ASSETS | 36,928 | 56,552 |
| Total assets | \$ 27,965,362 | \$32,430,584 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Lines of credit | \$ 2,054,698 | \$ 3,964,491 |
| Accounts payable | 2,559,005 | 4,734,895 |
| Accrued liabilities | 1,171,030 | 1,393,018 |
| Payables to related party | 546,061 | 1,465,205 |
| Total current liabilities | 6,330,794 | 11,557,609 |
| REDEEMABLE ORDINARY SHARES | 4,736,115 | 4,818,550 |
| COMMITMENTS | - | - |
| STOCKHOLDERS' EQUITY | | |
| Class A preferred stock, liquidation preference of \$8,130,570 and \$7,724,617 | 3,555,511 | 3,555,511 |
| Class B preferred stock, liquidation preference of \$2,811,193 and \$2,670,833 | 1,007 | 1,007 |
| Common stock | 2,135 | 2,135 |
| Additional paid in capital | 1,673,330 | 1,673,330 |
| Retained earnings | 11,666,470 | 10,822,442 |
| Total liabilities and stockholders' equity | \$ 27,965,362 | \$32,430,584 |

The accompanying notes are an integral part of these statements.

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The Topaz Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

| | Three months ended September 30, | | Nine months ended |
|--|----------------------------------|-------------|-------------------|
| | 2001 | 2002 | 2001 |
| Sales | \$5,525,989 | \$6,778,121 | \$15,012,234 |
| Cost of goods sold | 3,902,092 | 6,191,576 | 10,569,007 |
| Gross profit | 1,623,897 | 586,545 | 4,443,227 |
| Selling, general and administrative expenses | 918,036 | 945,452 | 2,795,133 |
| Earnings (loss) from operations | 705,861 | (358,907) | 1,648,094 |

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| | | | |
|--------------------------------|------------|--------------|--------------|
| Other income (expense) | | | |
| Exchange rate gain (loss) | (17,906) | 3,596 | (35,633) |
| Interest expense | (26,969) | (139,929) | (54,817) |
| Gain (loss) on remeasurement | 28,619 | 281,027 | 1,319,063 |
| Other, net | 17,013 | 27,550 | 47,472 |
| | ----- | ----- | ----- |
| | 757 | 172,244 | 1,276,085 |
| | ----- | ----- | ----- |
| NET EARNINGS (LOSS) | \$ 706,618 | \$ (186,663) | \$ 2,924,179 |
| | ===== | ===== | ===== |
| NET EARNINGS (LOSS) PER SHARE: | | | |
| Basic | \$ 0.49 | \$ (0.09) | \$ 2.41 |
| | ===== | ===== | ===== |
| Diluted | \$ 0.12 | \$ (0.09) | \$ 0.48 |
| | ===== | ===== | ===== |

The accompanying notes are an integral part of these statements.

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The Topaz Group, Inc. and Subsidiaries
CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

| | Nine months ended September 30, | 2001 | 2002 |
|--|---------------------------------|--------------|--------------|
| | | ----- | ----- |
| Increase (Decrease) in Cash and Cash Equivalents | | | |
| Cash flows from operating activities | | | |
| Net earnings (loss) | | \$ 2,924,179 | \$ (844,028) |
| Adjustments to reconcile net earnings to net cash provided by (used in) operating activities | | | |
| Depreciation and amortization | | 111,014 | 132,241 |
| Remeasurement of redeemable ordinary shares | | (123,369) | 82,435 |
| Changes in assets and liabilities: | | | |
| Receivables | | 832,264 | 1,769,439 |
| Inventories | | (3,602,511) | (5,916,542) |
| Prepaid expenses and deposits/other assets | | (742,460) | (154,682) |
| Payables | | (1,833,718) | 1,738,089 |
| Accrued liabilities | | 1,894,675 | 1,578,933 |
| Net cash used in operating activities | | (539,926) | (1,614,115) |
| Cash flows from investing activities | | | |
| Purchases of property and equipment | | (189,605) | (293,464) |
| Net cash used in investing activities | | (189,605) | (293,464) |
| | | ----- | ----- |
| Cash flows from financing activities | | | |
| Borrowings on line of credit, net | | 692,294 | 1,909,793 |
| Net cash provided by financing activities | | 692,294 | 1,909,793 |
| | | ----- | ----- |

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| | | |
|--|------------|------------|
| Net increase (decrease) in cash and cash equivalents | (37,237) | 2,214 |
| Cash and cash equivalents at the beginning of period | 321,734 | 351,565 |
| | ----- | ----- |
| Cash and cash equivalents at the end of period | \$ 284,497 | \$ 353,779 |
| | ===== | ===== |
| Supplemental disclosure of cash flow information: | | |
| Cash paid during the period | | |
| Interest | \$ 54,817 | \$ 186,355 |
| | ===== | ===== |

The accompanying notes are an integral part of these statements.

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The Topaz Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE A - FINANCIAL STATEMENTS

The unaudited consolidated financial statements of the Company and its subsidiaries have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles of the United States of America (GAAP) have been condensed or omitted pursuant to such rules and regulations. The results of operations for interim periods are not necessarily indicative of the results to be expected for the entire fiscal year ending December 31, 2002. This form 10-Q should be read in conjunction with the form 10-K that includes audited consolidated financial statements for the years ended December 31, 2000 and 2001, and the related consolidated statements of earnings, stockholders' equity and cash flows for the three years in the period ended December 31, 2001.

NOTE B - BASIS OF PRESENTATION

The accompanying consolidated financial statements include the accounts of the Company and its wholly-owned Thailand subsidiaries, Creative Gems & Jewelry Limited (Creative), Advance Gems & Jewelry Limited (Advance) and Advance Gems Manufacturing Co., Ltd (Advance Manufacturing) (collectively, the Subsidiaries). All significant intercompany accounts and transactions have been eliminated. Except as otherwise disclosed all amounts are in U.S. dollars.

NOTE C - NEW ACCOUNTING PRONOUNCEMENTS

The FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections," on April 30, 2002. Statement No. 145 rescinds Statement No.4, which required all gains and losses from extinguishments of debt to be aggregated and, if material, classified as an extraordinary item, net of related income tax

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effect. Upon adoption of Statement No. 145, companies will be required to apply the criteria in APB Opinion No. 30, "Reporting the Results of Operations - reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" in determining the classification of gains and losses resulting from the extinguishments of debt. Statement No. 145 is effective for fiscal years beginning after May 15, 2002. The adoption of this pronouncement is not expected to affect the Company's results of operations and financial position.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring,

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discontinued operation, plant closing, or other exit or disposal activity. SFAS No. 146 is to be applied prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of this pronouncement is not expected to affect the Company's results of operations and financial position.

NOTE D - INVENTORIES

Inventories consist of the following:

| | December 31, 2001 | September 30, 2002 | |
|------------------|----------------------|-----------------------|--|
| | ----- | ----- | |
| Raw materials | \$ 981,139 | \$ 3,975,104 | |
| Finished stones | 17,200,314 | 19,029,700 | |
| Finished jewelry | 823,347 | 1,916,538 | |
| | ----- | ----- | |
| | \$ 19,004,800 | \$ 24,921,342 | |
| | ===== | ===== | |

NOTE E - EARNINGS (LOSS) PER COMMON SHARE

The components of basic and diluted earnings (loss) per share were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | | |
|--|-------------------------------------|--------------|------------------------------------|--------------|--|
| | ----- | ----- | ----- | ----- | |
| | 2001 | 2002 | 2001 | 2002 | |
| | ----- | ----- | ----- | ----- | |
| BASIC | | | | | |
| Net earnings (loss) | \$ 706,618 | \$ (186,663) | \$2,924,179 | \$ (844,028) | |
| | ===== | ===== | ===== | ===== | |
| Weighted average outstanding shares of common stock | 1,433,677 | 2,134,886 | 1,213,489 | 2,134,886 | |
| Net earnings (loss) per share | \$ 0.49 | \$ (0.09) | \$ 2.41 | \$ (0.40) | |
| | ===== | ===== | ===== | ===== | |
| DILUTED | | | | | |

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| | | | | |
|---|------------|--------------|-------------|--------------|
| Net earnings (loss) available to common shareholders | \$ 706,618 | \$ (186,663) | \$2,924,179 | \$ (844,028) |
| | ===== | ===== | ===== | ===== |
| Weighted average outstanding shares of common stock | 1,433,677 | 2,134,886 | 1,213,489 | 2,134,886 |
| Dilutive effect of preferred shares (1) | 4,618,772 | - (2) | 4,838,960 | - (2) |
| | ----- | ----- | ----- | ----- |
| Common stock and potentially issuable common stock | 6,052,449 | 2,134,886 | 6,052,449 | 2,134,886 |
| Net earnings (loss) per share | \$ 0.12 | \$ (0.09) | \$ 0.48 | \$ (0.40) |
| | ===== | ===== | ===== | ===== |

(1) The dilutive effect of warrants outstanding during each of the presented periods was immaterial to these computations.

(2) Excluded from computation due to their anti-dilutive effect.

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ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto. The following discussion contains certain forward-looking statements that involve risk and uncertainties. Our actual results could differ materially from those discussed herein. Factors that could cause or contribute to such differences include, but are not limited to, risks and uncertainties related to the need for additional funds, the rapid growth of the operations and our ability to operate profitably after the initial growth period is completed.

NINE AND THREE MONTHS ENDED SEPTEMBER 30, 2002 AND SEPTEMBER 30, 2001

Sales. Total sales for nine months ended September 30, 2002 were \$17,309,616 compared to \$15,012,234 for the nine months ended September 30, 2001, an increase of 15.3%. This increase is due to our perception of improved consumer confidence in the US economy. Revenues for the three months ended September 30, 2002 were \$6,778,121, which represents a 22.7% increase from \$5,525,989 during the comparable quarter of the year ended December 31, 2001. Sales increased for the third quarter ended September 30, 2002 compared to the same period of the previous year as a result of increased orders from a limited number of existing large retail customers. The retail market in the US has represented approximately 80% of the Company's annual sales for the first nine months of fiscal 2002.

Cost of Goods Sold. Cost of goods sold for the nine months ended September 30, 2002 was \$15,070,429 representing 87.1% of sales, compared to \$10,569,007 for the nine months ended September 30, 2001, which represented 70.4% of sales. Cost of goods sold for the three months ended September 30, 2002 was \$6,191,576 or 91.3% of sales as compared to \$3,902,092 or 70.6% of sales during the three months ended September 30, 2001. The increase in cost of goods sold was due to a combination of the following factors: significant decrease in the yield of the topaz stone production, write off of diamond inventory residual, delayed recovery in the demand for jewelry products for most of the Company's customers causing weakness in the profit margin, and shift in product mix to lower margin jewelry products.

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Decrease in the yield of topaz stone production: Approximately 60% of the Company's sales are represented in Topaz stone production. As such, the Company purchases rough white topaz, cuts the stone, colors and polishes the finished product. This stone is sold as a finished product and is also manufactured into a variety of jewelry products. The yield on this product is represented by the weight loss that occurs between the rough purchase and production of the finished product. During 2001 the yield on the stone averaged approximately 17% and for the nine months ended September 30, 2002 the yield averaged 12%. The net effect is a decrease in margins for our two revenue segments as follows: margin for stone manufacturing decreased by approximately 14% and margins for jewelry production decreased by 5%. The yield loss is attributed to quality issues in the rough stone and production systems pertaining to the sorting and grading of the stone prior to the first cut.

Write off of diamond inventory residual: The Company purchases rough diamonds in the open market. During the second and third quarters of 2002, the Company purchased lower grade diamonds for specific lower margin orders. The quality of the diamonds represented poor cutting accuracy and resulted in a

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significant waste factor in the stones. This waste factor caused the average cost per carat of the diamonds to increase. In addition, the Company wrote off roughly \$250,000 in diamond waste that had accumulated from the current and prior periods.

Jewelry Cost per Unit Increase: The Company maintains two specific revenue centers: stone production and jewelry manufacturing. Jewelry represents approximately 60% of total sales and stones represent approximately 40% of sales. Under the stone component, the overhead costs (primarily labor) are piecework; therefore, direct labor per piece remains constant per unit of production. Under the jewelry component, the Company uses salaried skilled labor. Therefore, significant shifts in demand to smaller stones and lower price point products cause actual gross margins to decrease relative to the jewelry component. To a lesser degree, manufacturing costs for smaller stones are higher per carat.

Selling, General and Administrative Expenses. Operating costs were \$2,973,140 or 17.2%, and \$945,452, or 14.1% of sales, respectively, for the nine and three months ended September 30, 2002, as compared to \$2,795,133, or 18.6% and \$918,036, or 16.6%, respectively, for the nine and three months ended September 30, 2001. The increase is primarily attributed to an increase in general and administrative salaries and legal and accounting professional fees.

Earnings (Loss) from Operations. Net loss from operations for the nine and three months ended September 30, 2002, was (\$733,953) and (\$358,907), respectively, compared to a net earnings from operations of \$1,648,094 and \$705,861, respectively, for the nine and three months ended September 30, 2001. The losses are due, primarily, to an increase in cost of sales and selling, general and administrative expenses.

Other Income (Expenses). Other income (expense) was (\$110,075) and \$172,244, respectively, for the nine and three months ended September 30, 2002, as compared to \$1,276,085 and \$757, respectively, for the nine and three months ended September 30, 2001, or a net change of (\$282,319) and \$1,275,328. The change is primarily due to gains (losses) resulting from currency fluctuations. The remeasurement gain (loss) was (\$14,208) and \$281,027, respectively, for the nine and three months ended September 30, 2002, compared to \$1,319,063 and \$28,619, respectively, for the nine and three months ended September 30, 2001. The reduced effect of currency fluctuations was principally due to the Company

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now using US Dollars for the majority of its sales transactions.

Net Earnings (Loss). Net loss for the nine and three months ended September 30, 2002 was (\$844,028) and (\$186,663), respectively, compared to earnings of \$2,924,179 and \$706,618, respectively, for the nine and three months ended September 30, 2001. The difference is largely attributed to an increase in cost of sales and effects of foreign currency fluctuations.

LIQUIDITY AND CAPITAL RESOURCES

Our principal source of working capital is income from operations, borrowings under our revolving credit facilities and short-term loans from a company affiliate. As of September 30, 2002, we had a cash and cash equivalent balance of \$353,779 and working capital of \$18,347,183.

Our operating activities used cash of \$1,614,115 during the nine months ended September 30, 2002 as compared to \$539,926 used during the nine months ended September 30, 2001. The increase in cash used in operating activities

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resulted primarily from increases in inventories, and net operating losses. Inventory values increased primarily due to a recutting vendor return. The stones were returned because of the vendor's inability to recut stone inventory volumes and qualities specific to the Company's standards. Net losses increased because of increased cost of sales and other operating expenses.

The net cash provided by financing activities for the nine months ended September 30, 2002 was \$1,909,793 compared to \$692,294 for the nine months ended September 30, 2001. This net increase is due to new borrowings on our lines of credit.

We have line-of-credit arrangements with two Thai financial institutions and a line of credit arrangement with a U.S. financial institution entered into in October 1999, April 2000 and October 2001, respectively. The Thai lines are renewable automatically on a yearly basis and the U.S. line expires in November 2002; the lines are also subject to the banks' periodic reviews resulting in adjustment of our credit limit. The Thai lines bear interest at a rate equal to LIBOR plus two percent (7.5%-8% as of September 30, 2002); the U.S. line bears interest at prime plus 1.25% (6% as of September 30, 2002). The 1999 line is personally guaranteed by two of our directors and collateralized by various real estate properties belonging to us and one of our directors. The 2000 line is also guaranteed by two of our directors and secured by a deed on a real estate property owned by a related party. The U.S. line is secured personally by one of our directors, our U.S. receivables and inventory and by a lien on various Thai real estate properties and fixed assets of a related party. As of September 30, 2002, approximately \$2,398,202 was available for commercial draft borrowing under both the 1999 and 2000 lines. As of September 30, 2002, the outstanding balance under the Thai lines of credit and the US line of credit were \$2,192,205 and \$1,772,286, respectively.

The effects on liquidity of carrying large values of inventory can be referenced by days of sales in inventory. On average, for the twelve months ended September 30, 2002 and 2001, inventory would remain on the books for 467 and 408 days, respectively, until sold. The inventory is classified as a current asset on the balance sheet but restricts the use of working capital until the inventory is sold. The increase in inventory days was caused by the build up of inventories to support the replenishment of inventories with wholesalers and retailers.

Inventory is valued by applying a moving average method for valuation.

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Under this method of valuation, generally, the finished stone inventory does not progressively devalue with age and the prices per carat remain relatively stable. The average cost includes the raw cost of the product plus any additional costs to bring it to its current condition including processing, transportation, insurance and holding costs. Variances in valuation under the moving average cost method occur when stone prices, overhead cost and other related costs, which make up the value of the inventory, vary significantly up or down within the fiscal period. As such, material variances in the inventory costs are identified and valued separately to reflect true value.

Our business can be classified into two major groups including sale of finished jewelry and finished stones, to a lesser degree. Most of our finished jewelry is made to order and is shipped when completed. Inventory valuations include the lesser of manufactured cost or market valuation per unit times the quantities on hand. Lower of cost or market is referenced by recent sale prices of the finished stones compared to the cost to produce or acquire such stones. If recent sales of an existing stone are not available, current market price samples in the selling market will dictate the lower of cost or market for valuation purposes.

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Management believes we have the ability to meet our current and anticipated financing needs for the next twelve months with the facilities in place and funds from operations. However, given our growth prospects, we may need to seek increases in our credit facilities during the upcoming year to sustain further revenue growth.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK CURRENCY FLUCTUATIONS

1. FORWARD-LOOKING STATEMENTS

From time to time, we may make certain statements that contain "forward-looking" information. Words such as "anticipate", "estimate", "project", "believe" and similar expressions are intended to identify such forward-looking statements. Forward-looking statements may be made by management orally or in writing, including, but not limited to, in press releases, and as part of the Financial Information or Management's Discussion and Analysis or Plan of Operations.

Such forward-looking statements are subject to certain risks, uncertainties and assumptions, including without limiting those identified below. Should one or more of these risks or uncertainties materialize, or should any of the underlying assumptions prove incorrect, actual results of current and future operations may vary materially from those anticipated, estimated or projected. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates.

2. SIGNIFICANT ACCOUNTING POLICIES

Revenue Recognition

Revenue is recognized when goods are shipped to customers.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined using a moving average method.

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Functional Currency and Remeasurement.

The Company's Thai subsidiaries maintain their books and records in Thai Baht. However, their functional currency is the US dollar. Monetary assets and liabilities and related income and expense items are remeasured using current rates. Certain nonmonetary assets (notably property and equipment) are remeasured at historical rates. Other nonmonetary balance sheet items and related revenues, expenses, gains and losses are remeasured using average exchange rates. Gains or losses on remeasurement to U.S. dollars from Thai Baht are included in the consolidated statements of earnings.

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3. EXCHANGE RATE INFORMATION

Our Consolidated Financial Statements are prepared in U.S. dollars. The financial statements of our foreign subsidiaries are remeasured into U.S. dollars in accordance with Statement of Financial Accounting Standards No. 52. Fluctuations in the value of foreign currencies cause U.S. dollar amounts to change in comparison with previous periods and, accordingly, we cannot quantify in any meaningful way, the effect of such fluctuations upon future income. This is due to the constantly changing exposure in the Thai Baht for our Thai subsidiaries.

As of September 30, 2002, the average daily interbank exchange rate for the Baht was trading at 43.35 Baht to one US dollar. The exchange rate in Thailand has shown signs of recovery in early 2002 and we anticipate this to stabilize through the latter part of 2002. Weakening in the Baht may come from the gap between the U.S. and Thai interest rates giving a further boost to exports. Regions of Thailand continue to promote exports to strengthen their economies. We are unable to predict whether the trends noted above would have a material effect on our future financial condition or the results of operations and, if so, whether such an effect will be positive or negative.

4. EXCHANGE RATE FLUCTUATION

| | THAI BAHT | | | |
|---------|-----------|------------|-----------|------------|
| | FIRST QTR | SECOND QTR | THIRD QTR | FOURTH QTR |
| 2002 | | | | |
| ---- | | | | |
| High | 44.57 | 43.82 | 44.03 | |
| Average | 43.80 | 42.85 | 42.14 | |
| Low | 43.00 | 41.26 | 40.04 | |
| 2001 | | | | |
| ---- | | | | |
| High | 45.00 | 45.85 | 45.87 | 45.07 |
| Average | 43.29 | 45.45 | 44.98 | 44.40 |
| Low | 42.19 | 44.68 | 43.92 | 43.37 |
| 2000 | | | | |
| ---- | | | | |
| High | 38.30 | 39.45 | 42.77 | 44.49 |
| Average | 37.96 | 38.67 | 40.97 | 43.44 |
| Low | 36.71 | 37.72 | 39.10 | 41.88 |

Future volatility in the Baht may come from the continued strength in Thai exports. Other Asian countries are showing overall weakness in exports and large

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technology industries, with the exception of Japan. Japan's problems are primarily domestic. Asian countries overall will weaken with some support domestically by China and India. We do not anticipate Thailand to be effected by Japan's economic downturn and that of surrounding Asian region's, however; there can be no assurance of this.

We anticipate the cost of raw materials, which includes precious and non-precious metals, to show moderate cost decreases in the short-term.

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5. FOREIGN CURRENCY RISK

As of September 30, 2001, we had no open forward-contracts. Our Thai subsidiaries keep their books in the Thai Baht currency. As such, the Thai balances are exposed to currency gains and losses depending upon the currency rate fluctuations when compared to the US dollar for the respective periods. The currency and remeasurement gains and (losses) for nine and three months ended September 30, 2002 and 2001, were (\$14,208), \$281,027, \$1,319,063, and \$28,619, respectively.

6. INTEREST RATE FLUCTUATIONS

Our interest expenses and income are sensitive to changes in interest rates. As of September 30, 2002, we had \$3,964,491 in interest bearing obligations at various rates, and any fluctuation in the interest rate will have a direct impact on our interest expenses, cash flow and results of operations.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time period specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports filed under the Exchange Act is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Within the 90 days prior to the filing of this report, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the Company's disclosure controls and procedures. Based upon and as of the date of that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective to ensure that information required to be disclosed in the reports the Company files and submits under the Exchange Act is recorded, processed, summarized and reported as and when required.

(b) Changes in Internal Controls:

There were no changes in the Company's internal controls or in other factors that could have significantly affected those controls subsequent to the date of the Company's most recent evaluation.

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PART II

OTHER INFORMATION

- ITEM 1. LEGAL PROCEEDINGS.
None.
- ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.
None.
- ITEM 3. DEFAULTS UPON SENIOR SECURITIES.
None.
- ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.
None.
- ITEM 5. OTHER INFORMATION.
None.
- ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.
- a. Exhibits:
- 99 Certifications of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- (b) Reports on Form 8-K.
- None.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Dated: November 13, 2002

THE TOPAZ GROUP, INC.

By: /S/ Dr. Apichart Fufuangvanich

Name: Dr. Apichart Fufuangvanich
Title: Chief Executive Officer
(Principal Executive Officer)

Dated: November 13, 2002

By: /S/ Terrance C. Cuff

Name: Terrance C. Cuff
Title: Chief Financial Officer
(Principal Accounting Officer)

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CERTIFICATIONS

I, Dr. Apichart Fufuangvanich, certify that:

1. I have reviewed this quarterly report of Form 10-Q of The Topaz Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date");
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent

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evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002 By: /s/ Dr. Apichart Fufuangvanich

Name: Dr. Apichart Fufuangvanich
Title: Chairman and Chief Executive Officer

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CERTIFICATIONS

I, Terrance C. Cuff, certify that:

1. I have reviewed this quarterly report of Form 10-Q of The Topaz Group, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:
 - a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date");
 - c) Presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other

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employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officers and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

By: /s/ Terrance C. Cuff

Name: Terrance C. Cuff
Title: Chief Financial Officer

EXHIBIT 99

CERTIFICATION PURSUANT TO SECTION 906
OF THE SARBANES-OXLEY ACT OF 2002

The undersigned, Dr. Apichart Fufuangvanich and Terrance C. Cuff, hereby jointly certify as follows:

- a) They are the Chief Executive Officer and the Chief Financial Officer, respectively, of The Topaz Group, Inc. (the "Company");
- b) To the best of their knowledge, the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (the "Report") complies in all material respects with the requirements of Section 13(a) of the Securities Exchange Act of 1934, as amended; and
- c) To the best of their knowledge, based upon a review of the Report, the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company for the period certified.

By: /s/ Dr. Apichart Fufuangvanich

Name: Dr. Apichart Fufuangvanich
Title: Chief Executive Officer
Date: November 13, 2002

By: /s/ Terrance C. Cuff

Name: Terrance C. Cuff
Title: Chief Financial Officer
Date: November 13, 2002