

TOPAZ GROUP INC
Form 10-Q
August 20, 2003

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003 OR

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

For the transition period from _____ to _____

Commission File No. 001-14069

THE TOPAZ GROUP, INC.

(Exact name of registrant as specified in its charter)

Nevada	91-1762285
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)

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

(Address of principal executive offices, including zip code)

+66 2-439-4621

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(Registrant's telephone number, including area code)

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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 /X/ No / /

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The Topaz Group, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

ASSETS

	December 31	June 30
	2002	2003
CURRENT ASSETS		(unaudited)
Cash and cash equivalents	\$ 127,766	\$ 314,830
Accounts receivable, net of allowance of \$2,271,840 and \$2,001,503	2,486,841	2,148,214
Inventories, net	24,403,037	22,381,823
Prepaid expenses and deposits	<u>603,058</u>	<u>290,386</u>
Total current assets	27,620,702	25,135,253
PROPERTY AND EQUIPMENT - NET	2,463,089	2,235,671
OTHER ASSETS	<u>428,499</u>	<u>30,926</u>
Total assets	<u>\$ 30,512,290</u>	<u>\$ 27,401,850</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Lines of credit	\$ 3,767,157	\$ 4,184,992
Current maturities of long term notes payable	560,964	1,185,104
Accounts payable	4,136,697	4,954,615
Accrued liabilities	628,019	659,243
Advances	-	2,111,155
Payables to related party	<u>994,704</u>	<u>1,199,658</u>
Total current liabilities	10,087,541	14,294,767

LONG TERM NOTES PAYABLE, less current maturities	902,792	619,785
REDEEMABLE ORDINARY SHARES	4,840,356	2,908,370
COMMITMENTS	-	-
STOCKHOLDERS' EQUITY		
Class A preferred stock	-	-
Class B preferred stock, liquidation preference of \$2,442,534 and \$1,593,968	1,007	1,007
Common stock	5,046	5,046
Additional paid in capital	5,225,930	5,225,930
Retained earnings	<u>9,449,618</u>	<u>4,346,945</u>
	14,681,601	9,578,928
Total liabilities and stockholders' equity	<u>\$ 30,512,290</u>	<u>\$ 27,401,850</u>

The accompanying notes are an integral part of these statements.

The Topaz Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF OPERATIONS (unaudited)

Three months ended June 30 Six months ended
June 30

	<u>2002</u>	<u>2003</u>	<u>2002</u>	<u>2003</u>
Sales	\$ 4,906,225	\$ 3,935,774	\$ 10,531,495	\$ 9,335,878
Cost of goods sold	<u>4,722,456</u>	<u>6,707,447</u>	<u>8,878,853</u>	<u>11,099,394</u>
Gross profit	183,769	(2,771,673)	1,652,642	(1,763,516)
Selling, general and administrative expenses	<u>1,106,611</u>	<u>1,226,594</u>	<u>2,027,688</u>	<u>2,668,573</u>
Loss from operations	(922,842)	(3,998,267)	(375,046)	(4,432,089)
Other income (expense)				
Exchange rate gain (loss)	(5,782)	4,345	2,577	1,157
Interest expense	(41,381)	(253,894)	(58,596)	(335,113)
Loss on re-measurement	(226,439)	(250,799)	(295,235)	(370,770)

Other, net	<u>11,032</u>	<u>21,570</u>	<u>68,935</u>	<u>34,142</u>
	<u>(262,570)</u>	<u>(478,778)</u>	<u>(282,319)</u>	<u>(670,584)</u>
NET LOSS	<u>\$(1,185,412)</u>	<u>\$(4,477,045)</u>	<u>\$(657,365)</u>	<u>\$(5,102,673)</u>
NET LOSS PER SHARE:				
Basic and diluted	<u>(\$.56)</u>	<u>(\$.89)</u>	<u>(\$.31)</u>	<u>(\$1.01)</u>

The accompanying notes are an integral part of these statements.

The Topaz Group, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS (unaudited)

Six
months
ended
June
30

	<u>2002</u>	<u>2003</u>
Increase (Decrease) in Cash and Cash Equivalents		
Cash flows from operating activities		
Net loss	\$ (657,365)	\$ (5,102,673)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	85,727	144,088
Provision for slow moving inventory	-	3,256,251
Re-measurement of redeemable ordinary shares	303,195	98,208
Changes in assets and liabilities:		
Receivables, net of allowance	2,146,007	338,627
Inventories	(5,350,270)	(1,235,037)
Prepaid expenses, deposits and other assets	(157,953)	710,245
Accounts payables	4,162,708	817,918
Payables to related party	-	204,954
Accrued liabilities	(407,336)	31,224
Advances	-	<u>2,111,155</u>
Net cash provided by operating activities	124,713	1,374,960
Cash flows from investing activities		
Proceeds from sales of property and equipment	-	321,060
Purchases of property and equipment	<u>(205,080)</u>	<u>(237,730)</u>

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Net cash provided by (used in) investing activities	(205,080)	83,330
Cash flows from financing activities		
Borrowings on notes payable	-	341,133
Borrowings on line of credit, net	449,703	417,835
Repurchase of redeemable ordinary shares	-	(2,030,194)
Net cash provided by financing activities	449,703	(1,271,226)
Net increase in cash and cash equivalents	369,336	187,064
Cash and cash equivalents at the beginning of period	351,565	127,766
Cash and cash equivalents at the end of period	\$ 720,901	\$ 314,830
Supplemental disclosure of cash flow information:		
Interest paid during the period	\$ 70,766	\$ 312,037

The accompanying notes are an integral part of these statements.

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 ("US 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, 2003. This Form 10-Q should be read in conjunction with the Form 10-Q for the first quarter of this year as well as the Form 10-K that includes audited consolidated financial statements for the years ended December 31, 2001 and 2002, and the related consolidated statements of operations, stockholders' equity and cash flows for the three years in the period ended December 31, 2002.

NOTE B - MANAGEMENT PLANS

The Company has sustained recurring losses from operations, continued provisions on its inventory and reported a negative gross margin for the six months ended June 30, 2003.

In view of the matters described in the preceding paragraphs, recoverability of a portion of the recorded asset amounts shown in the accompanying financial statements is dependent upon continued operations of the Company, which in

turn is dependent upon the Company's ability to succeed in its future operations and to meet its financing requirements on a continuing basis. Management has focused on the following action plans:

In the first quarter additional sales people were hired for the US market. Their efforts are starting to show results and in the coming months we expect an increase in orders. Special sales actions have been and will be organized at our Bangkok office for sample jewelry inventory.

A cost reduction plan has been put into place and is starting to have positive results. Beginning in August 2003 part of the production facility will be moved to Cambodia, consequentially reducing the operating costs substantially. In early 2004 we will be able to close down our factory in the north of Thailand.

There is no assurance that the Company will achieve its current operating plan, obtain capital or have sufficient resources to fund continuing operations through at least June 30, 2004. The ultimate success of the Company will depend on increasing revenues and generating income from operations.

NOTE C - 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"), TGI (Thailand) Limited (TGIT), Advance Gems & Jewelry Limited ("Advance") and Advance Gems Manufacturing Co., Ltd ("Advance Manufacturing") (collectively, the "Subsidiaries"). All significant inter-company accounts and transactions have been eliminated. Except as otherwise disclosed, all amounts are in U.S. dollars.

NOTE D - RESTATEMENT OF PREVIOUS REPORTED STATEMENT OF OPERATIONS

Subsequent to March 31, 2003, we identified an inventory related error impacting our statement of operations for the three months ended March 31, 2003. The correction of this error has been reflected in the accompanying statement of operations for the three months ended June 30, 2003. The error resulted in an overstatement of gross margin and net loss of \$183,639 for the three months ended March 31, 2003, and an understatement of gross margin and net loss of \$183,639 for the three months ended June 30, 2003. After correction of this error, net loss for the three months ended March 31, 2003 is \$625,628. The effect on basic and diluted net loss per common share was an understatement of \$.03 for the three months ended March 31, 2003. The total net loss for the first six months of 2003 remains the same. Our previously filed Form 10Q filed May 20, 2003 will be amended to give effect to this correction.

NOTE E - INVENTORIES

Inventories consist of the following:

	<u>December 31,</u>	<u>June 30,</u>
	<u>2002</u>	<u>2003</u>
Raw materials	\$ 5,433,333	\$ 3,867,691
Finished stones	18,011,149	20,757,980
Finished jewelry	<u>1,449,110</u>	<u>1,502,958</u>

	24,893,592	26,128,629
Less provision for slowing moving inventory	(490,555)	(3,746,806)
	<u>\$ 24,403,037</u>	<u>\$ 22,381,823</u>

NOTE F - REDEEMABLE ORDINARY SHARES

Advance and Creative have 12,200,007 ordinary shares issued and outstanding to related parties as of June 30, 2003. Some of these related parties are preferred stockholders of the Company. The ordinary shares are not publicly traded and are eligible to receive dividends in proportion to their voting rights. Since the ordinary shares do not represent equity of the Company and the Company has an obligation to repurchase the ordinary shares they have been accounted for as redeemable equity of the Thai subsidiaries. In March 2003, the Company repurchased 8,709,993 ordinary shares of Creative from related parties at its par value.

The Topaz Group, Inc. and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)

NOTE G - LOSS PER COMMON SHARE

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

	Three months ended June 30		Six months ended June 30	
	2002	2003	2002	2003
BASIC				
Net loss	<u>\$ (1,185,412)</u>	<u>\$(4,477,045)</u>	<u>\$ (657,365)</u>	<u>\$ (5,102,673)</u>
Weighted average outstanding				
shares of common stock	2,134,886	5,045,936	2,134,886	5,045,936
Net loss per share	<u>(\$.56)</u>	<u>(\$.89)</u>	<u>(\$.31)</u>	<u>(\$ 1.01)</u>
DILUTED				
Net loss available to common shareholders	<u>\$ (1,185,412)</u>	<u>\$(4,477,045)</u>	<u>\$ (657,365)</u>	<u>\$ (5,102,673)</u>
Weighted average outstanding				
shares of common stock	2,134,886	5,045,936	2,134,886	5,045,936
Dilutive effect of preferred shares (1)	=	=	=	=
Common stock and potentially issuable				
common stock	2,134,886	5,045,936	2,134,886	5,045,936

Net loss per share	<u>(\$.56)</u>	<u>(\$.89)</u>	<u>(\$.31)</u>	<u>(\$1.01)</u>

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

NOTE H - SUBSEQUENT EVENT

On July 9, 2003, 700,000 common shares of the Company were transferred to Bank of Asia Thailand, one of our main lenders, as additional security for the outstanding facilities. The shares were repurchased from Best Worth Agents Ltd., the majority shareholder, at \$1.00 per share, which approximates the trading value on July 8, 2003. The repurchase will be accounted for under the treasury stock method. The Company issued a promissory note to Best Worth Agents Ltd. The promissory note is payable on July 8, 2004 and bears an interest of 8.75% per annum.

NOTE I - NEW ACCOUNTING PRONOUNCEMENTS

In May of 2003, FASB issued Statement 149, which amends Statement 133 by clarifying various derivatives related issues and provides for more consistent reporting of derivatives. Statement 149 is effective for contracts entered into or modified after June 30, 2003, with some exceptions, and for hedging relationships designated after June 30, 2003. The Company has not yet determined the impact of this statement, but anticipates that it will be complying with the provisions of the statement, which is to be applied prospectively.

In May 2003, FASB issued Statement 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". Statement 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. Statement 150 is effective for all financial instruments entered into or modified after May 31, 2003. The adoption of Statement 150 is not expected to have any effect on the Company's financial position, results of operations, or cash flows.

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. We undertake no obligation to publicly release the results of any revisions to those forward-looking statements that may be made to reflect any future events or circumstances.

RESULTS OF OPERATIONS

QUARTER ENDED JUNE 30, 2003 AND JUNE 30, 2002

SALES. Total sales for the quarter ended June 30, 2003 were \$3,935,774 compared to \$4,906,225 for the quarter ended June 30, 2002, a decrease of 20%. Total sales for the six months ended June 30, 2003 were \$9,335,878 compared to \$10,531,495 for the six months ended June 30, 2002, a decrease of 11%. The decrease in sales is attributable to two factors. First, the SARS epidemic restricted travel and restricted our visits to trade fairs. Second, the continuing weakness in the US economy contributed to lower sales.

COST OF GOODS SOLD. Cost of goods sold for the quarter ended June 30, 2003 was \$6,707,447 representing 170.4% of sales, compared to \$4,722,456 for the quarter ended June 30, 2002, which represented 96.3% of sales for that quarter. For the six months ended June 30, 2003, cost of goods sold was \$11,099,394, representing 118.9% of sales, compared to \$8,878,853 for the six months ended June 30, 2002. The negative gross margins were primarily due to additional provisions on slow moving inventory because of continued slower sales of semi precious stones.

OPERATING COSTS. Operating costs were \$1,226,594 for the quarter ended June 30 2003, or 31.2% of revenues, compared to \$1,106,611 for the quarter ended June 30, 2002, or 22.6% of revenues.

Operating costs were \$2,668,573 for the six months ended June 30 2003, or 28.6% of revenues, compared to \$2,027,688 for the six months ended June 30, 2002, or 19.3% of revenues. The increase in operating costs compared to the same periods in 2002 was primarily the result of two factors. First, we incurred increased sales expenses due to an increased number of presentations at trade shows, and associated travel expenses. Second, we incurred increased expenses due to our planned listing of Creative Gems & Jewelry on the Thai Stock Exchange. We have since postponed our plan to list Creative Gems & Jewelry on the Thai Stock Exchange.

OPERATING LOSS. Operating loss for the quarter ended June 30, 2003 was \$3,998,267 compared to a loss of \$922,842 for the quarter ended June 30, 2002. Operating loss for the six months ended June 30, 2003 was \$4,432,089 compared to a loss of \$375,046 for the six months ended June 30, 2002. The primary reason for the increase in our operating loss was the additional provisions on slow moving inventory during the second quarter of 2003.

OTHER EXPENSE. Other expense was \$478,778 for the quarter ended June 30, 2003 compared to \$262,570 for the quarter ended June 30, 2002. The change is mostly due to higher interest expense as a result of additional short-term borrowings. Additionally, with certain suppliers, a delay of payment of invoices was agreed but with interest over the agreed period. Other expense was \$670,584 for the six months ended June 30, 2003 compared to \$282,319 for the six months ended June 30, 2002. The main reasons were the higher interest expense from additional short-term borrowings and loss on re-measurement in the first quarter and second quarter.

NET LOSS. Net loss was \$4,477,045 for the second quarter ended June 30, 2003 compared to a net loss of \$1,185,412 for the same quarter in 2002. Net loss was \$5,102,673 for the six months ended June 30, 2003 compared to \$657,365 for the six months ended June 30, 2002. Net loss increased due to additional provisions on slow moving inventory, interest expense from additional short-term borrowings and loss on re-measurements of foreign currency.

LIQUIDITY AND CAPITAL RESOURCES

Principal sources of working capital are income from operations, borrowings under our revolving credit facilities and short-term loans from a company affiliate. At June 30, 2003, we had a cash and cash equivalent balance of \$314,830 and working capital of \$10,840,486.

The net cash used in financing activities for the quarter ended June 30, 2003 was \$1,271,226 compared to cash provided by financing activities of \$449,703 for the quarter ended June 30, 2002. The change was mainly the result of our repurchase of redeemable shares in the first quarter of 2003.

The cash provided by operating activities for the quarter ended June 30, 2003 was \$1,374,960, compared to \$124,713 for the same period in 2002. The increase was primarily the result of advances of \$2,111,155 in the first quarter of 2003. Additionally, there were changes in assets and liabilities, including a decrease in receivables of \$338,627, and an increase in inventories of \$1,235,037. These were the results of slower sales in 2003 and additional provision on slow moving inventory in the second quarter of 2002.

We have line-of-credit arrangements with four Thai financial institutions. With all institutions new credit agreements have been finalized at equal or lower interest rates. Furthermore, we received term loans in the amount of \$400,000 to pay for outstanding and overdue letters of credit.

All lines are renewable automatically on a yearly basis. 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, SIBOR plus two and three percent and Minimum Lending Rate minus one percent. As of June 30, 2003 banking facilities were as follows;

- overdraft facilities \$450,000
- short term loans \$1,500,000
- documentary packing credit loan \$2,770,000
- foreign exchange lines \$540,000

We have no available funds to borrow from all facilities. All lines are personally guaranteed by two of our directors and collateralized by various real estate properties belonging to directors. In addition, 700,000 shares of the Company are being held as additional collateral by Bank of Asia.

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 June 30, inventory would remain on the books for around 450 days. Some gemstones did not show any sales over this period. Although the sales of gemstones is fluctuating based on factors, such as fashion, additional provisions are set on those gemstones that showed a sales of less than 30% of total inventory on a yearly basis. Provisions were as follows; 25% on inventory of gemstones with a yearly sales between 20-30% of inventory value, 50% on inventory of gemstones with a yearly sales between 10-20% of inventory value and 75% on inventory of gemstones with a yearly sales of less than 10% of inventory value. The total additional provision on slow moving inventory of gemstones was \$670,000 for the quarter ended June 30, 2003. The inventory is classified as a current asset on the balance sheet but restricts the use of working capital until the inventory is sold.

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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.

Critical Accounting Policies

The preparation of financial statements and related disclosures in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. For example, unexpected changes in the market conditions or a downturn in the economy could adversely effect actual results. Estimates are used in for, among other things, inventory obsolescence/marketability, average inventory cost method, legal liability, depreciation, employee benefits, taxes and contingencies. Estimates and assumptions are reviewed periodically and the effects of the revisions are reflected in the Consolidated Financial Statements in the period they are determined to be necessary. Management believes the following critical accounting policies, among others affect its more significant judgments and estimates used in the preparation of its Consolidated Financial Statements.

Merchandise Inventories - Inventories are stated at the lower of average cost or market. Inventory is segregated into categories of merchandise with similar characteristics at its current average cost. The determination of inventory at cost and the resulting gross margins are calculated by applying an average cost to the inventory. The average cost for each merchandise category is based on beginning inventory, fiscal year purchase and sales activity and allocated overheads for each category.

We write down our inventory for discontinued, non-marketable, slow moving and damaged inventory. This write down is equal to the difference between the average cost of the inventory and its estimated market value based upon assumptions of targeted inventory turn rates, future demand, management strategy and market conditions. If actual market conditions are less favorable than those projected by management or management strategy changes, additional inventory write-downs may be required and, in the case of a major change in strategy or turndown in market conditions, such write-downs could be significant.

Accounts Receivable - We maintain an allowance for uncollectible accounts. We estimate the reserve each quarter based on the historical experience, the composition of outstanding balances, credit experience trends and other relevant information. The application of this methodology may result in increases or decreases in our provision for uncollectible accounts from quarter to quarter.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements to report.

Disclosure of Contractual Obligations and Other Commercial Commitments

The Company conducts its operations in leased facilities under operating leases expiring through February 2011. The company has the option of extending the lease terms beyond the current expiration date. The following is a schedule by year of approximate minimum rental payment under such operating leases.

<u>Year ending December 31</u>	<u>Third Party</u>	<u>Related Party</u>
--------------------------------	--------------------	----------------------

2003	87,673	66,977
2004	85,082	66,977
2005	71,420	66,977
2006	48,793	66,977
2007	11,163	66,977
Thereafter	5,581	212,093

Certain of the above leases provide for payment of taxes and other expenses by the company.

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New Accounting Pronouncements

In May of 2003, FASB issued Statement 149, which amends Statement 133 by clarifying various derivatives related issues and provides for more consistent reporting of derivatives. Statement 149 is effective for contracts entered into or modified after June 30, 2003, with some exceptions, and for hedging relationships designated after June 30, 2003. The Company has not yet determined the impact of this statement, but anticipates that it will be complying with the provisions of the statement, which is to be applied prospectively.

In May 2003, FASB issued Statement 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity". Statement 150 requires that certain financial instruments, which under previous guidance were accounted for as equity, must now be accounted for as liabilities. Statement 150 is effective for all financial instruments entered into or modified after May 31, 2003. The adoption of Statement 150 is not expected to have any effect on the Company's financial position, results of operations, or cash flows.

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, as part of the Financial Information or Management's Discussion and Analysis or Plan of Operations and as part of other sections of this registration statement.

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. 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 June 30, 2003, the average daily interbank exchange rate for the Baht was trading at 41.70 Baht to one US dollar. The exchange rate in Thailand is currently stable.

3. EXCHANGE RATE FLUCTUATION

	<u>THAI BAHT</u>			
	<u>FIRST QTR</u>	<u>SECOND QTR</u>	<u>THIRD QTR</u>	<u>FOURTH QTR</u>
<u>2003</u>				
High	42.88	42.10		
Average	42.84	41.95		
Low	42.75	41.40		
<u>2002</u>				
High	44.57	43.82	44.03	44.23
Average	43.80	42.85	42.14	43.24
Low	43.00	41.26	40.04	43.08

Future volatility in the Baht may come from the continued strength in the Thai exports. In the past twelve months the Thai economy, in general, has shown signs of recovery with a substantial increase in foreign as well as local investments.

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

4. FOREIGN CURRENCY RISK

As of June 30, 2003, 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 re-measurement gains and losses for quarters ending June 30, 2003 and 2002 were (\$250,799) and (\$226,439), respectively.

5. INTEREST RATE FLUCTUATIONS

Our interest expenses and income are sensitive to changes in interest rates. We had interest-bearing obligations of \$5,989,881 for the period ended June 30, 2003 bearing various interest 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. Regulations under the Securities Exchange Act of 1934 require public companies to maintain "disclosure controls and procedures," which are defined to mean a company's controls and other procedures that are designed to ensure that information required to be disclosed in the reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms. Within 90 days prior to the filing date of this Report (the "Evaluation Date"), the Company's principal executive officer ("CEO") and principal financial officer ("CFO") carried out an evaluation of the effectiveness of the Company's disclosure controls and procedures. Based on those evaluations, as of the Evaluation Date, the Company's CEO and CFO believe:

(i) that the Company's disclosure controls and procedures are designed to ensure that information required to be disclosed by the Company in the reports it files under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to the Company's management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosure; and

(ii) that the Company's disclosure controls and procedures are effective.

In connection with their audit of the Company's consolidated financial statements as of and for the year ended December 31, 2002, Grant Thornton LLP ("GT") advised the Company that it had identified certain deficiencies in the Company's internal control procedures that GT considered to be a "material weakness" under standards established by the American Institute of Certified Public Accountants. GT advised the Audit Committee on March 10, 2003, that it identified certain deficiencies in the Company's ability to timely and accurately present our inventory and our financial reports.

(b) Changes in Internal Controls. There were no significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls subsequent to the evaluation date referred to above. Although we have not yet taken any corrective actions with respect to the material weaknesses we have disclosed above, these matters have been discussed by GT with the Audit Committee of the Board of Directors of the Company. We intend to take corrective actions during the 2003 reporting period.

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. Reports on Form 8-K.

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We filed no reports on Form 8-K during the second quarter of 2003.

b. Exhibits. The following exhibits are hereby filed with this report:

99.1. Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. 99.2. Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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.

Date: August 19, 2003

THE TOPAZ GROUP, INC.

By: /s/ Peter Brongers

Name: Peter J. Brongers

Title: Chief Financial Officer

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, George Pfeiffer, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Topaz Group, Inc.;
2. Based on my knowledge, this 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 annual 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: August 19, 2003

/s/ George Pfeiffer

George Pfeiffer
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Peter J. Brongers, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Topaz Group, Inc.;

2. Based on my knowledge, this 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 annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual 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 annual report.

4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and I have:

a) evaluated 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 annual 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 annual report (the "Evaluation Date"); and

c) presented in this annual 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 annual 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: August 19, 2003

/s/ Peter J. Brongers

Peter J. Brongers
Chief Financial Officer

INDEX TO EXHIBITS

99.1. Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

99.2. Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* * *

Exhibit 99.1. Certification of Chief Executive Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Topaz Group, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ending June 30, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, George Pfeiffer, Chief Executive Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to my knowledge:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 19, 2003

/s/ George Pfeiffer

George Pfeiffer
Chief Executive Officer

* * *

Exhibit 99.2. Certification of Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

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CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(18 U.S.C. SECTION 1350)

In connection with the Quarterly Report of Topaz Group, Inc., a Nevada corporation (the "Company"), on Form 10-Q for the period ending March 31, 2003 as filed with the Securities and Exchange Commission (the "Report"), I, Peter J. Brongers, Chief Financial Officer of the Company, certify, pursuant to Sec. 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Sec. 1350), that to my knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: August 19, 2003

/s/ Peter J. Brongers

Peter J. Brongers
Chief Financial Officer