



MING FUNG JEWELLERY GROUP LIMITED

明豐珠寶集團有限公司

(incorporated in the Cayman Islands with limited liability)



2004

Annual Report



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2004



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Chi Ming, Jeffry (*Chairman*)
Ms. Lui Ching Han, Magda
Mr. Chung Yuk Lun
Mr. Yu Fei Philip

Independent Non-Executive Directors

Mr. Lee Pak Chung
Mr. Chen Nien Chong
Mr. Chan Man Kiu

AUDIT COMMITTEE

Mr. Lee Pak Chung
Mr. Chen Nien Chong
Mr. Chan Man Kiu

COMPANY SECRETARY

Mr. Tsang Wing Ki

REGISTERED OFFICE

Century Yard, Cricket Square
Hutchins Drive, P.O. Box 2681 GT
George Town, Grand Cayman
Cayman Islands
British West Indies

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1825, 18th Floor
Hutchison House
10 Harcourt Road, Central
Hong Kong

REGISTRARS

Principal Share Registrar and Transfer Office
Bank of Butterfield International (Cayman) Ltd.
Butterfield House, 68 Fort Street
P.O.Box 705
George Town, Grand Cayman
Cayman Islands

*Hong Kong Branch Share Registrar and
Transfer Office*
Tengis Limited
Ground Floor
Bank of East Asia Harbour View Centre
56 Gloucester Road, Wanchai
Hong Kong

AUDITORS

Albert Lam & Co.
Room 301-303, 3rd Floor
China Insurance Group Building
141 Des Voeux Road Central
Hong Kong

CHAIRMAN'S STATEMENT

2004



On behalf of the Board of Directors (the "Board") of Ming Fung Jewellery Group Limited (the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present the annual report of the Group for the year ended 30 September 2004.

FINANCIAL PERFORMANCE

For the year ended 30 September 2004, the Group posted a record high turnover of approximately HK\$354.0 million, representing an encouraging increase of approximately 36.4% as compared to approximately HK\$259.6 million in previous year. Net profit from ordinary activities attributable to shareholders was approximately HK\$47.0 million, representing an increase of approximately 47.8% over that of the previous year. Gross profit margin was increased to approximately 30.9% as compared to 30.3% of last year, while net profit margin was approximately 13.3%, increasing by about 8.1% as compared to that of 12.3% of last year.

BUSINESS REVIEW

During the year under review, the global economy has shown prominent positive signs of recovery from the downturn effects after the Severe Acute Respiratory Syndrome (the "SARS") and the Iraq war. With the improvement of general economy, the Group grasped this favourable opportunity to maintain active presence in a series of major international jewellery trade shows throughout the year to strengthen the relationship with existing customers while exploring fresh orders from new customers. The trade shows that demonstrated promising results to the Group include Hong Kong International Jewellery Show 2004, Basel 2004, the 16th MidEast Watch & Jewellery Show, the 4th Shanghai International Jewellery Fair, International Jewellery Moscow, JCK Las Vegas Show 2004, VicenzaOro 2, Korea International Jewellery & Watch Fair, Orogemma and Hong Kong Jewellery & Watch Fair 2004. In line with the strenuous efforts of the management, returned sales orders from existing customers coupled with new customer orders have resulted in higher turnover and wider operating profit margin.

Selling and distribution expenses of the Group recorded an amount of approximately HK\$28.7 million (2003: HK\$18.0 million) during the year. The increase of approximately 59.4% in selling and distribution expenses was in collaboration with the strong efforts being dedicated to marketing promotion and exhibition activities.

Administrative expenses of the Group for the year have an increase of 33.6% to HK\$16.3 million as compared to HK\$12.2 million in prior year. The increase was collaborated to the Group's strategy of maintaining a stable level of administrative expenses at 4.6% of the Group's turnover as compared with that of 4.7% of last year.

Other operating expenses of the Group for the year were attributable to research and development costs incurred for development of new products and researching of new production technology. The underlying other operating expenses for the year has evidenced a reduction of 39.8% from HK\$8.8 million in 2003 to HK\$5.3 million in the current year. The cause of the decrease was a large number of research and development programs being carried out in prior year in the course of developing new product designs and varieties along with enhancement of product qualities.



CHAIRMAN'S STATEMENT *(Continued)*

During the year, to cope with the long-term growth potentials and to strengthen the production capability of the Group, the Group continued to acquire further machinery, furniture, fixtures and office equipment which valued at approximately HK\$16.3 million.

FUTURE PLANS AND PROSPECTS

The Group has established an excellent reputation for its product quality and its ability to manufacture a wide variety of jewellery products at competitive prices in the market. Gem-set jewellery products will continue to remain as the core products of the Group. To design and create ranges of high-quality gem-set jewellery products which are receptive to our customers and responsive to the market trend is always our Group's mission. The Group will continue to expand its market share and customer base by actively participating in the international jewellery trade shows and exhibitions, and adopting competitive marketing strategies in the course of reaching out to new customers.

Facing the highly competitive environment in the US market, the Group will continue to place more marketing efforts in maintaining and exploring the jewellery markets in Europe and the Middle East. In this regard, the strengthening of Euro and other cross currencies as against the weak US dollars should result in Hong Kong jewellery more attractive to the customers in these regions. In addition, with the implementation of Closer Economic Partnership Arrangement ("CEPA") between Hong Kong and the People's Republic of China ("PRC") during the year which enables Hong Kong jewellery operations to enjoy a zero (PRC) import-tariff (which could otherwise be at 35%) for import of jewellery to China, extra opportunities to the Group are anticipated in exploring such a huge marketplace in the PRC. In view of the growing potentials of the PRC market, the Group has carried out extensive market research and studies and will actively develop the opportunities in the wholesaling and retailing businesses in the PRC.

Looking forward, with the worldwide economic environment continually improving and buyers being more active in placing orders in recent trade fairs, demand for jewellery products will continue to grow at a healthy pace and performance in the coming future is expected to look promising and optimistic. As our Group's committed mission, we will continue to pursue in the jewellery industry in a leading market position with recognised reputation so as to realize and share the fruitful results of the promising industry growth with shareholders.

APPRECIATION

On behalf of the Board, I would like to express our appreciation to the management and staff members for their continued dedication and contribution. I would also like to express our gratitude to our shareholders for their supports to the Group.

Wong Chi Ming, Jeffry
Chairman

Hong Kong
19 January 2005

MANAGEMENT DISCUSSION AND ANALYSIS

2004



FINANCIAL REVIEW

During the year ended 30 September 2004, the turnover of the Group recorded at approximately HK\$354.0 million, representing an increase of about 36.4% as compared with the previous year. The upsurge in turnover of the Group for the year was collaborated to the strenuous efforts of the management through active participation and marketing promotion in a series of major international jewellery trade shows throughout the year as contrast to the adverse effect of SARS in previous year. The net profit from ordinary activities attributable to shareholders was about HK\$47.0 million, representing an encouraging increase of approximately 47.8% over the previous year. The gross profit margin of the Group remained at about 30.9%. The net profit margin for the year was approximately 13.3%, which represent an increase of approximately 8.1% as compared with that of 12.3% last year.

The operating expenses net of other revenue and other operating expenses were amounted to approximately HK\$44.3 million (2003: HK\$29.1 million). The percentage of these expenses to the turnover was approximately 12.5% (2003: 11.2%), representing an increase of approximately 11.6% as compared to prior year.

For the year ended 30 September 2004, the Group has spent approximately HK\$5.3 million (2003: HK\$8.8 million) in the research and development of jewellery products. The research and development costs, embedded within other operating expenses, has shown a decrease of approximately 39.8% as compared to prior year. The cause of the decrease was a large number of research and development programs being carried out in prior year in the course of developing new product designs and varieties along with enhancement of product qualities.

The Group has further invested approximately HK\$16.3 million (2003: HK\$53.9 million) to acquire additional machinery, furniture, fixtures and office equipment in the course of expanding the production capacity of the Group.

OPERATIONS REVIEW

Products manufactured by the Group are primarily sold to the overseas markets in the US, Europe, the Middle East and South East Asia. For the year ended 30 September 2004, the US is still the largest market of the Group's products and sales to the US accounted for about 52.8% (2003: 54.3%) of the Group's turnover. Sales in Europe accounted for about 36.6% (2003: 32.5%) of the Group's turnover. The remaining sales of the Group's products were related to the markets in the Middle East and South East Asia and accounted for about 10.6% (2003: 13.2%) of the Group's turnover. The actual implementation of CEPA during the year has set the Group to begin placing more emphasis to explore new commercial opportunities in the wholesaling and retailing businesses in the PRC.



MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

LIQUIDITY AND FINANCIAL RESOURCES

With the net cash inflow generated from operations of approximately HK\$38.7 million during the year under review, and the continuous financial support provided by banks, the Group was able to maintain healthy liquidity and financial position.

As at 30 September 2004, the Group has further improved its net current assets position from HK\$87.2 million to HK\$126.3 million. The net current assets comprise of inventories of HK\$81.7 million (2003: HK\$52.5 million), trade receivables of about HK\$86.3 million (2003: HK\$54.5 million), other receivables of about HK\$5.2 million (2003: HK\$7.2 million), cash and bank balances of about HK\$67.8 million (2003: HK\$57.4 million) and current liabilities of about HK\$114.7 million (2003: HK\$84.4 million).

Increases in trade receivables and inventories were in line with the increases in the turnover for the year and more inventories have been set aside to cater for new customers orders. In connection with improved market sentiment, a greater number of sales orders were acquired during the second half of the year as compared to the first half. The Group's trade debtor turnover, inventory turnover and trade creditor turnover period were 89 days, 122 days and 25 days respectively. These turnover periods are consistent with the respective policy of the Group on credit terms granted to trade debtors, inventory/purchasing and trade creditors.

During the year, the Group principally financed its operations and investing activities by its internal resources and interest-bearing borrowings. The capital structure of the Company solely consists of share capital. As at 30 September 2004, the shareholders' equity of the Group was amounted to about HK\$197.5 million (2003: HK\$152.1 million). Total interest-bearing borrowings of the Group amounted to about HK\$55.5 million (2003: HK\$37.6 million) and carried at commercial lending interest rates. All of the total interest-bearing borrowings as at 30 September 2004 was repayable within a year. The Group's gearing ratio for the year represented by the interest-bearing borrowings as a percentage of the Group's shareholders' equity was 28.1% (2003: 24.7%) which is relatively well below the market average. On the whole, the Group has maintained a stable gearing ratio during the year under review.

The sales and purchases of the Group are mostly denominated in US dollars and Hong Kong dollars. The cash and cash equivalents and interest-bearing borrowings of the Group are denominated in Hong Kong dollars, US dollars and Renminbi. Since the Group's exposure to fluctuations in foreign exchange rates is minimal, the Group had not considered using hedging instruments to minimise the exposure to foreign currency fluctuation.

As at 30 September 2004, the Group had capital commitments of approximately HK\$3.0 million (2003: Nil). The Group did not have any significant contingent liabilities as at 30 September 2004 (2003: Nil).

Furthermore, the Company has given guarantees in favour of certain banks to the extent of approximately HK\$64 million in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2004, the banking facilities utilised by these subsidiaries were amounted to approximately HK\$55.5 million.

MANAGEMENT DISCUSSION AND ANALYSIS *(Continued)*

2004



EMPLOYEE AND REMUNERATION POLICIES

As at 30 September 2004, the Group had approximately 36 employees with remuneration of approximately HK\$11.0 million for the year under review. The Group's emolument policies are formulated on the performance of individual employee and will be reviewed regularly every year.

The Group has established a share option scheme for its employees and other eligible participants with a view to providing an incentive to or as a reward for their contribution to the Group. During the year under review, options carrying rights to subscribe for an aggregate of 32,500,000 shares in the Company were granted to its employees under the share option scheme.

Given the above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2004 interim report.



DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS

Executive Directors

Mr. Wong Chi Ming, Jeffry, aged 47, is the chairman of the Company and the co-founder of the Group. Mr. Wong, with extensive experience in the jewellery industry in Hong Kong and extensive knowledge in the jewellery industry of the United States of America and Europe, is responsible for the overall strategic planning and policy making of the Group. He was appointed as a director on 28 February 2002.

Ms. Lui Ching Han, Magda, aged 45, is a director and the co-founder of the Group. She has extensive operational and management experience in the jewellery industry and is responsible for the overall management and administration of the Group. She is the wife of Mr. Wong Chi Ming, Jeffry. She was appointed as a director on 28 February 2002.

Mr. Chung Yuk Lun, aged 44, is a director of the Company. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chung is responsible for the finance and accounting matters of the Group. He was appointed as a director on 28 February 2002.

Mr. Yu Fei Philip, aged 47, is a director of the Company. He obtained a Bachelor of Science from California State University, Los Angeles. Mr. Yu is responsible for the sales and marketing the Group's products and has over 20 years of experience in trading businesses. He was appointed as a director on 2 April 2004.

Independent Non-Executive Directors

Mr. Lee Pak Chung, aged 40, was appointed as an independent non-executive director in August 2002. He is a certified public accountant in Hong Kong practising under his name Lee Pak Chung, certified public accountant and has over 16 years of experience in accounting, auditing and corporate finance. He is also an independent non-executive director of Global Green Tech Group Limited which is a publicly listed company in Hong Kong. He holds a bachelor of science degree in computer studies and a master of business administration degree in finance.

Mr. Chen Nien Chong, aged 66, joined the Company as an independent non-executive director in August 2002. Mr. Chen graduated from the University of Liaoning in the People's Republic of China ("PRC") in 1963. He was a senior manager of Bank of China responsible for corporate accounts with businesses in the PRC. He has over 25 years of experience in banking and another 10 years of experience in trading businesses.

Mr. Chan Man Kiu, aged 43, was appointed as an independent non-executive director in March 2004. He is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. Mr. Chan possesses 17 years of experience in financial services sector, excelling in development and management of internal operations, business integration and financial controls.

DIRECTORS AND SENIOR MANAGEMENT *(Continued)*

2004



SENIOR MANAGEMENT

Ms. Lee Yik Oi, aged 39, is the chief designer of the Group. Ms. Lee joined the Group in June 2004 and is responsible for the design of various jewellery products of the Group including rings, earrings, pendants, bracelets, necklaces, brooches, belt buckles, cufflinks, etc. She has over seven years of experience in jewellery design.

Mr. Ji Yi Dong, aged 37, is the sales manager of the Group. Mr. Ji joined the Group in December 2002 and is responsible for the sales and distribution of jewellery products of the Group. He has over four years of experience in sales and distribution of jewellery products.

Mr. Zhou Zhen Bing, aged 35, is the production manager of the Group. Mr. Zhou joined the Group in September 2002 and is responsible for organizing and coordination of jewellery production of the Group. He has over six years of experience in production and operational management.

Mr. Tsang Wing Ki, aged 43, is the financial controller and company secretary of the Group. Mr. Tsang joined the Group in July 2004 and is responsible for the financial, accounting and company secretarial matters of the Group. Mr. Tsang is a fellow member of the Association of Chartered Certified Accountants and a fellow member of the Hong Kong Institute of Certified Public Accountants. He has worked in certain listed companies before joining the Group and has over seventeen years of experience in the field of finance, accounting and auditing.

Mr. Liang Jing Xiong, aged 41, is the finance and accounting manager of the Group. Mr. Liang joined the Group in July 2000 and is responsible for the finance and accounting matters of the Group. He has over seventeen years of experience in the field of finance and accounting.



NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Ming Fung Jewellery Group Limited (the "Company") will be held at 9:00 a.m. on Thursday, 3 March 2005 at Business Centre Meeting Room, PM/F, The Empire Hotel Hong Kong, 33 Hennessy Road, Wanchai, Hong Kong for the following purposes:

1. To receive and consider the audited consolidated financial statements and the reports of the directors and of the auditors of the Company for the year ended 30 September 2004;
2. To declare a final dividend for the year ended 30 September 2004;
3. To re-elect Mr. Yu Fei Philip, Mr. Lee Pak Chung and Mr. Chan Man Kiu as directors and to authorise the board of directors to fix directors' remuneration;
4. To re-appoint Messrs. Albert Lam & Co. as auditors and to authorise the board of directors to fix their remuneration;
5. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

"THAT

- (a) subject to paragraph (c) of this resolution, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company ("Directors") during the Relevant Period (as defined below) of all the powers of the Company to allot, issue and otherwise deal with additional shares ("Shares") in the capital of the Company or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares, and to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers, subject to and in accordance with all applicable laws, be and it is hereby generally and unconditionally approved;
- (b) the approval in paragraph (a) of this resolution shall authorise the Directors during the Relevant Period to make, grant, sign or execute offers, agreements or options, deeds and other documents which would or might require the exercise of such powers after the end of the Relevant Period;
- (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and issued by the Directors pursuant to the approval in this resolution, otherwise than pursuant to:
 - (i) a rights issue (as defined below); or
 - (ii) the exercise of rights of subscription or conversion attaching to any warrants of the Company or any securities which are convertible into Shares; or

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

2004



- (iii) the exercise of any option under the share option scheme or similar arrangement for the time being adopted for the grant or issue to officers and/or employees of the Company and/or any of its subsidiaries or any other eligible persons of Shares or rights to acquire Shares of the Company; or
- (iv) scrip dividends or under similar arrangement providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares in accordance with the articles of association of the Company in force from time to time; and
- (v) a specific authority granted by the shareholders of the Company,

shall not exceed 20 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the said approval pursuant to paragraph (a) of this resolution shall be limited accordingly;

- (d) for the purpose of this resolution:

“Relevant Period” means the period from the passing of this resolution until whichever is the earlier of:

- (i) the conclusion of the next annual general meeting of the Company;
- (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the applicable laws of the Cayman Islands to be held; or
- (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting; and

“rights issue” means the allotment, issue or grant of Shares pursuant to an offer of shares open for a period fixed by the Directors to the holders of Shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares as at that date (subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”



NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

6. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT

- (a) subject to paragraph (b) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all powers of the Company to purchase shares (“Shares”) in the capital of the Company on The Stock Exchange of Hong Kong Limited (“Stock Exchange”) or on any other exchange on which the securities of the Company may be listed and recognised by the Securities and Futures Commission of Hong Kong and the Stock Exchange for this purpose (“Recognised Stock Exchange”), subject to and in accordance with the applicable laws of the Cayman Islands and the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or those of any other Recognised Stock Exchange as amended from time to time, be and the same is hereby generally and unconditionally approved;
- (b) the aggregate nominal amount of Shares which may be purchased by the Company pursuant to the approval in paragraph (a) of this resolution during the Relevant Period shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution, and the approval pursuant to paragraph (a) of this resolution shall be limited accordingly;
- (c) for the purpose of this resolution, “Relevant Period” means the period from the date of passing of this resolution until whichever is the earlier of:
 - (i) the conclusion of the next annual general meeting of the Company;
 - (ii) the expiration of the period within which the next annual general meeting of the Company is required by the articles of association of the Company or the applicable laws of the Cayman Islands to be held; or
 - (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of shareholders of the Company in general meeting.”

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

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7. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT subject to the passing of the resolutions numbered 5 and 6 as set out in the notice (the “Notice”) convening this meeting, the general mandate granted to the Directors to exercise the powers of the Company to allot, issue and otherwise deal with shares (“Shares”) in the capital of the Company pursuant to the resolution numbered 5 as set out in the Notice be and the same is hereby extended by the addition to the aggregate nominal amount of share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the Directors pursuant to such general mandate of an amount representing the aggregate nominal amount of the share capital of the Company purchased by the Company under the authority granted pursuant to the resolution numbered 6 as set out in the Notice provided that such amount shall not exceed 10 per cent. of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution.”

8. To consider as special business and, if thought fit, pass with or without amendments, the following resolution as a special resolution:

“THAT the existing articles of association of the Company be and are hereby amended in the following manner:

- (a) By deleting the existing definition of “associates” in its entirety in the existing Article 1(A) and replacing therewith the following:

““associate(s)” shall have the meaning ascribed to it in the rules of the Designated Stock Exchange”;

- (b) By deleting the words “a recognised clearing house within the meaning of section 2 of the Securities and Futures (Clearing Houses) Ordinance (Cap. 420 of the Laws of Hong Kong) or” from the existing definition of “clearing house” in the existing Article 1(A);

- (c) By adding the following new definition of “Designated Stock Exchange” in the existing Article 1(A) after the existing definition of “debenture” and “debenture holder”:

““Designated Stock Exchange” shall mean a stock exchange in respect of which the shares of the Company are listed or quoted and where such stock exchange deems such listing or quotation to be the primary listing or quotation of the shares of the Company”;

- (d) By adding the words “unless a poll is taken as may from time to time be required under the rules of the Designated Stock Exchange or any other applicable laws, rules or regulations or” immediately before the word “unless” on 2nd line in the existing Article 72;



NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

(e) By adding the words “a poll is taken as may from time to time be required under the rules of the Designated Stock Exchange or any other applicable laws, rules or regulations or unless” immediately after the word “Unless” at the beginning of the existing Article 73.

(f) By re-numbering the existing Article 83 as Article 83(A) and adding the following new Article 83(B) thereafter:

“83(B) Where any shareholder is, under the rules of the Designated Stock Exchange, required to abstain from voting on any particular resolution or restricted to voting only for or only against any particular resolution, any votes cast by or on behalf of such shareholder in contravention of such requirement or restriction shall not be counted.”

(g) By deleting the existing Article 107(H), (I), (J) and (K) in their entirety respectively and substituting therefor the following:

“107(H) A Director shall not vote (nor be counted in the quorum) on any resolution of the Board approving any contract or arrangement or any other proposal in which he or any of his associates is materially interested, but this prohibition shall not apply to any of the following matters namely:

(i) any contract or arrangement for the giving to such Director or his associate(s) any security or indemnity in respect of money lent by him or any of his associates or obligations incurred or undertaken by him or any of his associate(s) at the request of or for the benefit of the Company or any of its subsidiaries;

(ii) any contract or arrangement for the giving of any security or indemnity to a third party in respect of a debt or obligation of the Company or any of its subsidiaries for which the Director or his associate(s) has himself/themselves guaranteed or secured or otherwise assumed responsibility in whole or in part and whether alone or jointly under a guarantee or indemnity or by the giving of security;

(iii) any contract or arrangement concerning an offer of shares or debentures or other securities of or by the Company or any other company which the Company may promote or be interested in for subscription or purchase, where the Director or his associate(s) is/are or is/are to be interested as a participant in the underwriting or sub-underwriting of the offer;

(iv) any contract or arrangement in which the Director or his associate(s) is/are interested in the same manner as other holders of shares or debentures or other securities of the Company by virtue only of his/their interest in shares or debentures or other securities of the Company;

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

2004



- (v) any contract or arrangement concerning any other company in which the Director or his associate(s) is/are interested only, whether directly or indirectly, as an officer or executive or a shareholder other than a company in which the Director and/or his associate(s) is/are beneficially interested in five (5) per cent or more of the issued shares or of the voting rights of any class of shares of such company (or any third company through which his interest and/or that of any of his associates is derived); or
 - (vi) any proposal concerning the adoption, modification or operation of a share option scheme, a pension fund or retirement, death or disability benefits scheme or other arrangement which relates both to directors (or their associate(s)) and employees of the Company or of any of its subsidiaries and does not provide in respect of any Director, or his associate(s), as such any privilege or advantage not accorded to the employees to which such scheme or fund relates.
- (l) A company shall be deemed to be a company in which a Director and/or his associate(s) owns five (5) per cent. or more if and so long as (but only if and so long as) he and/or his associate(s), (either directly or indirectly) are the holder(s) of or beneficially interested in five (5) per cent. or more of any class of the issued equity share capital of such company or of the voting rights available to members of such company (or of any third company through which his interest or that of any of his associate(s) is derived). For the purpose of this paragraph there shall be disregarded any shares held by a Director or any of his associate(s) as bare or custodian trustee and in which he or any of them has no beneficial interest, any shares comprised in a trust in which the interest of the Director or his associate(s) is/are in reversion or remainder if and so long as some other person is entitled to receive the income thereof, and any shares comprised in an authorised unit trust scheme in which the Director or his associate(s) is/are interested only as a unit holder and any shares which carry no voting right at general meetings and very restrictive dividend and return of capital right.
- (j) Where a company in which a Director and/or his associate(s) holds five (5) per cent. or more is/are materially interested in a transaction, then that Director and/or his associate(s) shall also be deemed materially interested in such transaction.



NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

- (K) If any question shall arise at any meeting of the Board as to the materiality of the interest of a Director (other than the chairman of the meeting) or any of his associate(s) or as to the entitlement of any Director (other than such chairman) to vote or be counted in the quorum and such question is not resolved by his voluntarily agreeing to abstain from voting or not be counted in the quorum, such question shall be referred to the chairman of the meeting and his ruling in relation to such other Director shall be final and conclusive except in a case where the nature or extent of the interest of the Director and/or his associate(s) concerned as known to such Director has not been fairly disclosed to the Board. If any question as aforesaid shall arise in respect of the chairman of the meeting such question shall be decided by a resolution of the Board (for which purpose such chairman shall not vote thereon) and such resolution shall be final and conclusive except in a case where the nature or extent of the interest of such chairman and/or his associate(s) as known to such chairman has not been fairly disclosed to the Board.”;
- (h) By adding the words “To the extent as permitted by the rules of the Designated Stock Exchange or any other applicable laws, rules or regulations,” at the beginning of the existing Article 107(M); and
- (i) By deleting the existing Article 113 in its entirety and substituting therefor the following:
- “113 No person, other than a Director retiring at a meeting, shall, unless recommended by the Directors for election, be eligible for appointment as a director at any general meeting unless there shall have been lodged at the Head Office or at the Registration Office notice in writing signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose that person for election as a Director and also notice in writing signed by that person of his willingness to be elected as a Director. Unless otherwise determined by the Directors and notified by the Company to the shareholders, the period for lodgment of the said notices shall be a seven day period commencing on the day after the dispatch of the notice of the general meeting for such election of Director(s) and ending on the date falling seven days after the dispatch of the said notice of the general meeting.

If the Directors should so determine and notify the shareholders of a different period for lodgment of the said notices, such period shall in any event be a period of not less than seven days, commencing on no earlier than the day after the dispatch of the said notice of the general meeting for such election (or on such date earlier than as aforesaid if so determined by the Directors) and end no later than seven days prior to the date of such general meeting.”;

NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

2004



9. As special business, to consider and, if thought fit, pass with or without amendments, the following resolution as an ordinary resolution:

“THAT pursuant to clause 8.2(a) of the existing share option scheme (the “Scheme”) adopted by the Company on 12 August 2002, approval be and is hereby generally and unconditionally granted for “refreshing” the 10% general limit on the grant of options under the Scheme provided that (i) the aggregate nominal amount of the total number of shares in the capital of the Company to be allotted and issued upon the exercise of all options to be granted under the Scheme and any other share option schemes of the Company under this limit as “refreshed” hereby shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue as at the date of the passing of this resolution and (ii) options previously granted under the Scheme and any other share option schemes of the Company (including options outstanding, cancelled, lapsed or exercised in accordance with the terms of the Scheme or any other share option schemes of the Company) shall not be counted for the purpose of calculating the 10% limit as “refreshed” hereby and THAT the Directors of the Company be and are hereby authorised to grant options up to the limit as refreshed and to exercise all the powers of the Company to allot, issue and deal with shares of the Company pursuant to the exercise of such options.”

By order of the board of directors of
Ming Fung Jewellery Group Limited
Wong Chi Ming, Jeffry
Chairman

Hong Kong, 19 January 2005

Registered office:
Century Yard
Cricket Square
Hutchins Drive
P.O. Box 2681GT
George Town
Grand Cayman
Cayman Islands
British West Indies

*Head office and principal place of
business in Hong Kong:*
Room 1825, 18th Floor
Hutchison House
10 Harcourt Road
Central, Hong Kong

As at the date hereof, the Company’s executive directors are Wong Chi Ming, Jeffry, Lui Ching Han, Magda, Chung Yuk Lun and Yu Fei Philip and independent non-executive directors are Lee Pak Chung, Chen Nien Chong and Chan Man Kiu.



NOTICE OF ANNUAL GENERAL MEETING *(Continued)*

Notes:

- (1) A member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or (if holding two or more shares) more proxies to attend and vote in his stead. A proxy need not be a member of the Company.
- (2) To be valid, the form of proxy together with any power of attorney or other authority under which it is signed or a notarially certified copy of that power of attorney or authority must be deposited with the Hong Kong branch share registrars of the Company, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 48 hours before the time fixed for holding the meeting or any adjournment thereof.
- (3) Completion and return of the form of proxy will not preclude members from attending and voting at the aforesaid meeting.
- (4) The register of members will be closed from 1 March 2005 to 3 March 2005 (both dates inclusive), during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend and to attend and vote at the aforesaid meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars of the Company, Tengis Limited at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 28 February 2005.
- (5) In relation to the proposed resolutions numbered 5 and 7 above, approval is being sought from the shareholders for the grant to the directors of general mandate to issue shares under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The directors have no immediate plans to issue any new shares of the Company other than shares which may fall to be issued under the share option scheme of the Company or any scrip dividend scheme or under similar arrangement which may be approved by shareholders.
- (6) In relation to the proposed resolution no. 6 above, the directors wish to state that they will exercise the powers conferred thereby to repurchase shares of the Company when appropriate in the circumstances for the benefit of the shareholders. An explanatory statement containing the information as required by the Listing Rules will be set out in a circular (the "Circular") to be despatched to the shareholders together with the annual report for the year ended 30 September 2004 containing the notice of this meeting.
- (7) The Circular also contains necessary information regarding item 3, item 8 and item 9 of this notice.
- (8) The proposed resolution no. 8 is mainly made to reflect the corresponding changes in the Company's existing articles of associations required by the amendments to the Appendix 3 to the Listing Rules with effect from 31 March 2004.
- (9) The Chinese translation of this notice (including the contents of the proposed resolutions set out therein) is for reference only. In case of inconsistency, the English version shall prevail.

REPORT OF THE DIRECTORS

2004



The directors ("Directors") of Ming Fung Jewellery Group Limited ("Company") have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 September 2004.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical locations of customers for the year ended 30 September 2004 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 September 2004 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 28 to 60.

During the year, an interim dividend of HK\$1,625,000 (2003: Nil) was declared and paid on 28 July 2004. The Directors proposed a final dividend of HK0.5 cent per share for the year ended 30 September 2004 (2003: Nil) to be payable to shareholders whose names appear in the register of members of the Company on 3 March 2005. This proposed dividend was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ended 30 September 2004.

SUMMARY OF FIVE YEARS' FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group for each of the five years ended 30 September 2004, prepared on the bases set out in the note below:

Results

	Year ended 30 September				
	2004	2003	2002	2001	2000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	353,967	259,563	267,158	195,684	146,420
Profit from operating activities	59,749	40,752	48,649	36,782	27,579
Finance costs	(2,354)	(1,274)	(532)	(523)	(706)
Profit before tax	57,395	39,478	48,117	36,259	26,873
Tax	(10,421)	(7,629)	(7,790)	(5,891)	(4,446)
Net profit from ordinary activities attributable to shareholders	46,974	31,849	40,327	30,368	22,427

REPORT OF THE DIRECTORS *(Continued)*

SUMMARY OF FIVE YEARS' FINANCIAL INFORMATION *(Continued)*

Assets and Liabilities

	At 30 September				
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Non-current assets	71,155	64,946	15,130	14,551	9,417
Current assets	240,967	171,558	169,752	67,253	45,812
Total assets	312,122	236,504	184,882	81,804	55,229
Current liabilities	114,670	84,401	63,812	39,411	29,033
Non-current liabilities	—	—	816	1,006	1,177
Total liabilities	114,670	84,401	64,628	40,417	30,210
Net assets	197,452	152,103	120,254	41,387	25,019

Note: The summaries of the published consolidated/combined results of the Group for the two years ended 30 September 2000 and 2001, and of the assets and liabilities of the Group as at those dates have been extracted from the prospectus dated 22 August 2002. Such summaries were prepared from the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years. The results of the Group for the year ended 30 September 2002 and 2003 and the assets and liabilities of the Group as at 30 September 2002 and 2003 are extracted from the audited financial statements. The results of the Group for the year ended 30 September 2004 and the assets and liabilities of the Group as at 30 September 2004 are those set out in the financial statements on pages 28 and 29 respectively.

FIXED ASSETS

Details of movements in the Group's fixed assets during the year are set out in note 13 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 21 to the financial statements.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's articles of association or the laws of the Cayman Islands, being the jurisdiction in which the Company was incorporated, which would oblige the Company to offer new shares on a pro rata basis to its existing shareholders.



PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

The Company has not redeemed any of its shares, and neither the Company, nor any of its subsidiaries has purchased or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 30 September 2004, the Company had distributable reserves of approximately HK\$130,462,000 (2003: HK\$115,287,000), of which HK\$3,250,000 (2003: Nil) has been proposed as final dividend for the year, calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. This includes the Company's share premium account of approximately HK\$109,777,000 (2003: HK\$109,777,000) which is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 38% of the total sales for the year and the sales to the largest customer included therein amounted to approximately 10%.

Purchases from the Group's five largest suppliers accounted for approximately 45% of the total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 19%.

None of the Directors, or any of their associates or any shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive directors

Mr. Wong Chi Ming, Jeffrey

Ms. Lui Ching Han, Magda

Mr. Chung Yuk Lun

Mr. Yu Fei Philip

(appointed on 2 April 2004)



REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS *(Continued)*

Independent non-executive directors

Mr. Lee Pak Chung

Mr. Chen Nien Chong

Mr. Chan Bing Kwong, Henry (resigned on 3 October 2003)

Mr. Chan Man Kiu (appointed on 9 March 2004)

In accordance with articles 108(A) and 112 of the Company's articles of association, Mr. Yu Fei Philip, Mr. Lee Pak Chung and Mr. Chan Man Kiu will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The independent non-executive directors are not appointed for specific terms, but are subject to retirement by rotation in accordance with the Company's articles of association.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 8 and 9 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Wong Chi Ming, Jeffrey and Ms. Lui Ching Han, Magda, both as executive directors have entered into a service contract with the Company for an initial term of three years commencing from 1 August 2002.

Mr. Chung Yuk Lun as executive director has entered into a service contract with the Company for an initial term of two years commencing from 1 August 2002 and upon the expiry of his last service contract on 31 July 2004, Mr. Chung Yuk Lun has renewed his service contract with the Company for a term of one year commencing from 1 August 2004.

Mr. Yu Fei Philip as executive director has entered into a service contract with the Company for an initial term of two years commencing from 2 April 2004.

The existing service contracts of the executive directors will continue thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has or is proposed to have a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



DIRECTORS' INTERESTS IN CONTRACTS

No Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year under review.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or in existence during the year.

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

As at 30 September 2004, the interests of the Directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Director	Type of interests	Number of issued ordinary shares held	Number of underlying shares held	Total interests	Percentage of interest
Mr. Wong Chi Ming, Jeffry	Corporate <i>(Note)</i>	416,000,000	–	416,000,000	64%

Notes:

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

Mr. Wong Chi Ming, Jeffry beneficially owns 800 shares of US\$1 each in Equity Base Holdings Limited, an associated corporation (within the meaning of Part XV of the SFO) of the Company, representing the entire issued shares in Equity Base Holdings Limited. Ms. Lui Ching Han, Magda, is also deemed to be interested in these shares of the associated corporation under the SFO.



REPORT OF THE DIRECTORS *(Continued)*

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION *(Continued)*

In addition to the above, certain Directors have non-beneficial personal equity interests in certain subsidiaries of the Company held in trust for the Company solely for the purpose of complying with the statutory minimum company shareholders requirements.

Save as disclosed above, as at 30 September 2004, none of the Directors, or their associates had any interests or short positions in the shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 22 to the financial statements, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or its holding company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in the Company or any other body corporate.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year under review and up to date of this report, no Director of the Company or any of its subsidiaries is considered to have an interest in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), other than those business of which the Directors of the Company were appointed as Directors to represent the interest of the Company and/or the Group.

SHARE OPTION SCHEME

Detailed disclosures relating to the Company's share option scheme are set out in note 22 to the financial statements.

REPORT OF THE DIRECTORS *(Continued)*

2004



SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following persons (other than the Directors) had interest in the shares and the underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein:

Name	Number of issued ordinary shares and underlying shares held	Percentage of total issued shares
Equity Base Holdings Limited <i>(Note)</i>	416,000,000 <i>(Note)</i>	64%

Note:

- (a) These interests are also included as corporate interests of Mr. Wong Chi Ming, Jeffrey, as disclosed under the heading "Directors' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation". Ms. Lui Ching Han, Magda, the spouse of Mr. Wong Chi Ming, Jeffrey will be deemed to be interested in these shares under the SFO.
- (b) All the interests stated above represent long positions in the shares of the Company.

Save as disclosed above, as at 30 September 2004, there was no person who (i) had an interest or short position in the shares and underlying shares of the Company which (a) would fall to be disclosed to the Company and the Stock Exchange pursuant to Divisions 2 and 3 of Part XV of the SFO; or (b) were required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein; or (ii) were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying the right to vote in all circumstances at general meetings of the Company or any options in respect of such capital.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 30 September 2004 are set out in notes 18 and 19 to the financial statements.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 3 to the financial statements on page 36.

PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the ordinary shares in public hands exceed 25% as at 19 January 2005, the latest practicable date to ascertain such information prior to the issue of this annual report.



REPORT OF THE DIRECTORS *(Continued)*

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the “Code”) as set out in Appendix 14 to the Listing Rules, except that the independent non-executive Directors are not appointed for specific terms as required by the Code, but they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s articles of association.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES (“Model Code”)

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to rule 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors. The Company confirms that it has received from each of the independent non-executive directors a confirmation of his independence pursuant to rule 3.13 and the Company still considers all the existing independent non-executive directors to be independent.

AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group’s financial reporting process and internal controls. Currently the audit committee comprises the three independent non-executive Directors, who have reviewed the financial statements for the year ended 30 September 2004.

AUDITORS

The financial statements of the Company for the year ended 30 September 2004 have been audited by Albert Lam & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

Wong Chi Ming, Jeffry
Chairman

Hong Kong
19 January 2005

REPORT OF THE AUDITORS

2004

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Albert Lam & Co.

REGISTERED AUDITORS (U.K.)
CERTIFIED PUBLIC ACCOUNTANTS

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To the members
Ming Fung Jewellery Group Limited
(incorporated in the Cayman Islands with limited liability)

We have audited the financial statements on pages 28 to 60 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes an examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Albert Lam & Co.
Certified Public Accountants

Hong Kong
19 January 2005

CONSOLIDATED INCOME STATEMENTS

Year ended 30 September 2004

	Notes	2004 HK\$'000	2003 HK\$'000
TURNOVER	4	353,967	259,563
COST OF SALES		<u>(244,591)</u>	<u>(180,922)</u>
GROSS PROFIT		109,376	78,641
OTHER REVENUE	4	709	1,019
SELLING AND DISTRIBUTION EXPENSES		(28,676)	(17,970)
ADMINISTRATIVE EXPENSES		(16,331)	(12,187)
OTHER OPERATING EXPENSES		<u>(5,329)</u>	<u>(8,751)</u>
PROFIT FROM OPERATING ACTIVITIES	6	59,749	40,752
FINANCE COSTS	8	<u>(2,354)</u>	<u>(1,274)</u>
PROFIT BEFORE TAX		57,395	39,478
TAX	9	<u>(10,421)</u>	<u>(7,629)</u>
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS	10	<u>46,974</u>	<u>31,849</u>
DIVIDENDS	11		
Interim		1,625	—
Proposed final		<u>3,250</u>	<u>—</u>
		<u>4,875</u>	<u>—</u>
EARNINGS PER SHARE	12		
– Basic		<u>HK7.2 cents</u>	<u>HK4.9 cents</u>
– Diluted		<u>HK6.9 cents</u>	<u>HK4.8 cents</u>

CONSOLIDATED BALANCE SHEET

2004



Year ended 30 September 2004

	Notes	2004 HK\$'000	2003 HK\$'000
NON-CURRENT ASSETS			
Fixed assets	13	<u>71,155</u>	<u>64,946</u>
CURRENT ASSETS			
Prepayments, deposits and other receivables		5,195	7,178
Inventories	15	81,697	52,467
Trade receivables	16	86,302	54,539
Cash and cash equivalents	17	<u>67,773</u>	<u>57,374</u>
		240,967	171,558
CURRENT LIABILITIES			
Interest-bearing bank borrowings, secured	18	55,477	37,598
Trade payables	20	16,799	14,515
Other payables and accruals		2,425	2,740
Tax payables		<u>39,969</u>	<u>29,548</u>
		114,670	84,401
NET CURRENT ASSETS		126,297	87,157
TOTAL ASSETS LESS CURRENT LIABILITIES		197,452	152,103
		197,452	152,103
CAPITAL AND RESERVES			
Issued capital	21	6,500	6,500
Reserves	23	187,702	145,603
Proposed final dividend	23	<u>3,250</u>	<u>—</u>
		197,452	152,103

Wong Chi Ming, Jeffry
Director

Yu Fei Philip
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 30 September 2004

	<i>Notes</i>	Share capital <i>HK\$'000</i>	Share premium <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 October 2002		6,500	32,240	—	81,514	120,254
Net profit for the year		—	—	—	31,849	31,849
At 30 September 2003 and 1 October 2003		6,500	32,240	—	113,363	152,103
Interim dividend paid on 28 July 2004	23	—	—	—	(1,625)	(1,625)
Final dividend proposed	23	—	—	3,250	(3,250)	—
Net profit for the year		—	—	—	46,974	46,974
At 30 September 2004		<u>6,500</u>	<u>32,240</u>	<u>3,250</u>	<u>155,462</u>	<u>197,452</u>

CONSOLIDATED CASH FLOW STATEMENT

2004



Year ended 30 September 2004

	Notes	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES			
Net cash inflow generated from operations	24(a)	38,736	32,561
Net cash inflow from operating activities		38,736	32,561
INVESTING ACTIVITIES			
Interest received		241	518
Purchases of fixed assets		(16,343)	(53,883)
Net cash outflow from investing activities		(16,102)	(53,365)
FINANCING ACTIVITIES			
	24(b)		
Repayment of bank loans, secured		(8,500)	(1,002)
Interest paid		(2,354)	(1,274)
Dividend paid		(1,625)	—
Net cash outflow from financing activities		(12,479)	(2,276)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		10,155	(23,080)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		49,602	72,682
CASH AND CASH EQUIVALENTS AT END OF YEAR		59,757	49,602
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	17	48,408	29,028
Non-pledged time deposits with original maturity of less than three months when acquired	17	19,365	28,346
Bank overdrafts, secured	18	(8,016)	(7,772)
		59,757	49,602



BALANCE SHEET

At 30 September 2004

	<i>Notes</i>	2004 HK\$'000	2003 <i>HK\$'000</i>
NON-CURRENT ASSETS			
Investments in subsidiaries	14	<u>77,737</u>	<u>77,737</u>
CURRENT ASSETS			
Amounts due from subsidiaries	14	69,361	57,868
Prepayments, deposits and other receivables		200	—
Cash and cash equivalents	17	<u>27</u>	<u>27</u>
		69,588	<u>57,895</u>
CURRENT LIABILITIES			
Other payables and accruals		815	2,189
Amounts due to subsidiaries	14	<u>9,548</u>	<u>11,656</u>
		10,363	<u>13,845</u>
NET CURRENT ASSETS			
		<u>59,225</u>	<u>44,050</u>
		136,962	<u>121,787</u>
CAPITAL AND RESERVES			
Issued capital	21	6,500	6,500
Reserves	23	127,212	115,287
Proposed final dividend	23	<u>3,250</u>	—
		136,962	<u>121,787</u>

Wong Chi Ming, Jeffry
Director

Yu Fei Philip
Director

NOTES TO THE FINANCIAL STATEMENTS

2004



Year ended 30 September 2004

1. CORPORATE INFORMATION

Ming Fung Jewellery Group Limited (“Company”) was incorporated in the Cayman Islands as an exempted company with limited liability on 30 January 2002 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 3 September 2002.

The principal activity of the Company is investment holding. The principal activities of the Company’s subsidiaries (which together with the Company are collectively referred to as “the Group”) are set out in note 14 to the financial statements. There were no significant changes in the nature of the Group’s principal activities during the year.

2. IMPACT OF REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The Group has adopted the SSAP 12 (Revised) “Income Taxes” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) which became effective for the accounting periods commencing from 1 January 2003 in the preparation of the current year’s financial statements.

In prior years, deferred tax liabilities were provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which were expected with reasonable probability to crystallize in the foreseeable future. Deferred tax assets were not recognized unless their realization was assured beyond reasonable doubt. With effect from this financial year, in order to comply with SSAP 12 (Revised) issued by the HKICPA, the Group adopted a new policy for deferred taxation, whereby deferred taxation is provided in full, using the balance sheet liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Deferred taxation is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred taxation is also dealt with in equity.

The adoption of SSAP 12 (Revised) has had no material effect on the results for the current or prior accounting periods. Accordingly, no prior period adjustment has been required.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The financial statements have been prepared under the historical cost convention.

Basis of presentation and consolidation

The consolidated financial statements for the year ended 30 September 2004 include the financial statements of the Company and its subsidiaries for the year ended 30 September 2004. Subsidiaries are those entities in respect of which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the Board of Directors, or to cast majority of votes at the meetings of the Board of Directors. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from or to their effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- (a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and
- (b) interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Segment reporting

In accordance with the Group's internal financial reporting the Group has determined the geographical segment be presented as the primary reporting format and business segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of fixed assets, inventories and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of "SSAP 30: Business Combinations" that permits goodwill on acquisitions which occurred prior to the Group's accounting period beginning from 1 October 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Employee benefits

(i) *Pension obligations*

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

(ii) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

(iii) *Share option scheme*

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from register of outstanding options.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalized as an additional cost of that asset.

Depreciation is calculated on the reducing-balance basis to write off the cost of each asset, less any estimated residual value, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Plant and machinery	15%
Furniture, fixtures and office equipment	15%
Motor vehicles	15%

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is calculated using the first-in, first-out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets should be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, and also should be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies translation

Foreign currency transactions during the year are translated into Hong Kong dollars at the applicable rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling as at the balance sheet date. Exchange differences are dealt with in the income statement.

The balance sheet of subsidiaries expressed in foreign currencies are translated at exchange rates ruling as at the balance sheet date, whilst the income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognized because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

4. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of all significant intra-Group transactions during the year.

An analysis of turnover and other revenue is as follows:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Turnover – sale of goods	<u>353,967</u>	<u>259,563</u>
Other revenue:		
Interest income	241	518
Others	<u>468</u>	<u>501</u>
	<u>709</u>	<u>1,019</u>
	<u>354,676</u>	<u>260,582</u>

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the manufacture and sale of jewellery products, which is managed according to the geographical location of customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments. The Group's geographical segments are as follows:

- (i) United States of America;
- (ii) Europe; and
- (iii) Middle East and South East Asia.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of the customers and assets are attributed to the segments based on the location of the assets.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

5. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments based on the location of customers

The following tables present revenue, results and certain asset, liability and expenditure information of the Group's geographical segments for the years ended 30 September 2004 and 2003.

	United States of America		Europe		Middle East and South East Asia		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	186,931	141,026	129,452	84,258	37,584	34,279	353,967	259,563
Segment results	32,613	23,923	23,777	15,829	6,058	5,427	62,448	45,179
Unallocated revenue							709	1,019
Unallocated expenses							(3,408)	(5,446)
Profit from operating activities							59,749	40,752
Finance costs							(2,354)	(1,274)
Profit before tax							57,395	39,478
Tax							(10,421)	(7,629)
Net profit from ordinary activities attributable to shareholders							46,974	31,849

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

5. SEGMENT INFORMATION *(Continued)*

(a) Geographical segments based on the location of customers *(Continued)*

	United States of America		Europe		Middle East and South East Asia		Unallocated		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	129,042	97,325	89,363	58,148	25,944	23,657	–	–	244,349	179,130
Unallocated assets	–	–	–	–	–	–	67,773	57,374	67,773	57,374
Total assets	129,042	97,325	89,363	58,148	25,944	23,657	67,773	57,374	312,122	236,504
Segment liabilities	9,722	8,181	6,732	4,888	1,955	1,989	–	–	18,409	15,058
Unallocated liabilities	–	–	–	–	–	–	96,261	69,343	96,261	69,343
Total liabilities	9,722	8,181	6,732	4,888	1,955	1,989	96,261	69,343	114,670	84,401
Other segment information:										
Depreciation	5,352	2,210	3,706	1,320	1,076	537	–	–	10,134	4,067
Capital expenditure	8,631	29,276	5,977	17,491	1,735	7,116	–	–	16,343	53,883

(b) Geographical segments based on the location of assets

	Hong Kong		Macau		PRC		Consolidated	
	2004	2003	2004	2003	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	61,575	55,941	162,184	103,697	88,363	76,866	312,122	236,504
Capital expenditure	628	644	–	–	15,715	53,239	16,343	53,883

(c) Business segments

All of the revenue and assets of the Group are derived from the manufacture and sale of jewellery products.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

6. PROFIT FROM OPERATING ACTIVITIES

The Group's profit from operating activities is arrived at after charging/ (crediting):

	2004 HK\$'000	2003 <i>HK\$'000</i>
Cost of inventories sold	244,591	180,922
Depreciation	10,134	4,067
Minimum lease payments under operating leases on leasehold land and buildings	682	591
Staff costs (excluding directors' remuneration – note 7):		
Wages and salaries	8,319	6,794
Retirement benefits scheme contributions	129	100
	8,448	6,894
Auditors' remuneration	450	380
Research and development costs	5,329	8,751
Interest income	(241)	(518)

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Fees:		
Executive directors	—	—
Independent non-executive directors	133	200
	133	200
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	2,413	1,740
Independent non-executive directors	—	—
	2,413	1,740
Retirement benefits scheme contributions:		
Executive directors	33	33
Independent non-executive directors	—	—
	33	33
	2,579	1,973

Fees include approximately HK\$133,000 (2003: HK\$200,000) payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors of the Company during the year (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

7. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(Continued)*

The number of directors of the Company whose remuneration fell within the following band is as follows:

	Group	
	2004	2003
	Number of	Number of
	directors	directors
Nil – HK\$1,000,000	<u>7</u>	<u>6</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2003: Nil).

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2003: Nil).

During the year, there were no options granted to the directors in respect of their services to the Group.

The five highest paid employees during the year included two (2003: three) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining three (2003: two) non-director, highest paid employees, whose remuneration fell within the Nil to HK\$1,000,000 band, are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,674	904
Retirement benefits scheme contributions	<u>11</u>	<u>23</u>
	<u>1,685</u>	<u>927</u>

During the year, no (2003: 4,000,000) share options were granted to the highest paid, non-director employees in respect of their services to the Group. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these options. Accordingly, no estimated value of such options has been charged to the income statements as at the date of the grant.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

8. FINANCE COSTS

	Group	
	2004	2003
	HK\$'000	HK\$'000
Interest on bank overdrafts and trust receipt loans wholly repayable within five years	<u>2,354</u>	<u>1,274</u>

9. TAX

The amount of tax charged / (credited) to the consolidated income statement represents:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong profits tax	—	—
Overseas taxation	10,421	7,652
Over-provision of Hong Kong profits tax in prior years	<u>—</u>	<u>(23)</u>
Tax charge for the year	<u>10,421</u>	<u>7,629</u>

- (a) No provision for Hong Kong profits tax has been made for the current year as the Group did not generate any assessable profits arising in Hong Kong for the current year. No provision for Hong Kong profits tax has been made for last year as the Group have available tax losses brought forward to set off assessable profits of the last year.
- (b) Overseas taxation is related to Macau tax which has been provided at the applicable income tax rate on the assessable profits based on existing legislation, interpretations and practices in respect thereof.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

9. TAX *(Continued)*

A reconciliation of the tax expense applicable to profit before tax using the principal statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, are as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Profit before tax	57,395	39,478
Tax at the statutory rate of 17.5%	10,044	6,909
Effect of different rates for companies operating in other jurisdictions	(1,158)	(850)
Adjustments in respect of current tax of previous periods	–	(23)
Expenses not deductible for tax	1,232	1,467
Income not subjected to tax	(74)	–
Unutilised tax losses	377	126
Tax charge at the Group's effective rate	10,421	7,629

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the year (2003: Nil).

10. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the year was approximately HK\$16,800,000 (2003: HK\$1,578,000).

11. DIVIDENDS

During the year, an interim dividend of approximately \$1,625,000 (2003: Nil) was declared and paid on 28 July 2004.

At a meeting held on 19 January 2005, the directors proposed a final dividend of HK0.5 cent per share (2003: Nil) for the year ended 30 September 2004 to be payable to shareholders whose names appear in the register of members of the Company on 3 March 2005. Subject to shareholders' approval at the forthcoming annual general meeting, such dividend will be payable on or about 30 March 2005. This proposed dividend was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ended 30 September 2004.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

12. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$46,974,000 (2003: HK\$31,849,000) and the weighted average number of 650,000,000 shares (2003: 650,000,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 September 2004 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$46,974,000 (2003: HK\$31,849,000) and the weighted average number of 682,405,167 shares (2003: 660,472,537 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

(c) Reconciliations

	2004 Number of shares	2003 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	650,000,000	650,000,000
Deemed issue of ordinary shares for no consideration	32,405,167	10,472,537
Weighted average number of ordinary shares used in calculating diluted earnings per shares	<u>682,405,167</u>	<u>660,472,537</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

13. FIXED ASSETS

Group

	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 October 2003	73,184	3,150	449	76,783
Additions	15,715	80	548	16,343
At 30 September 2004	88,899	3,230	997	93,126
Accumulated depreciation:				
At 1 October 2003	10,163	1,428	246	11,837
Provided during the year	9,798	265	71	10,134
At 30 September 2004	19,961	1,693	317	21,971
Net book value:				
At 30 September 2004	68,938	1,537	680	71,155
At 30 September 2003	63,021	1,722	203	64,946

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Unlisted shares, at cost	77,737	77,737

The balances with subsidiaries included in the Company's current assets and liabilities are unsecured, interest-free and have no fixed terms of repayment.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Particulars of the subsidiaries are as follows:

Name	Place of incorporation/ establishment and operations*	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Directly held				
Ming Fung Investment Holdings Limited	British Virgin Islands ("BVI")	Ordinary US\$1,000	100%	Investment holding
Indirectly held				
Brilliant Jewellery Trading Limited	BVI/ Macau	Ordinary US\$1,000	100%	Distribution of jewellery products
Brilliant (Macao Commercial Offshore) Company Limited #	Macau	Ordinary MOP\$100,000	100%	Distribution of jewellery products
Jeda International Services Limited	BVI/Israel, India and Belgium	Ordinary US\$1,000	100%	Provision of procurement services
Magfrey Company Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Trading of diamonds and gemstones
On Line Jewellery Manufacturer Company Limited	Hong Kong	Ordinary HK\$1,000,000	100%	Manufacture and sale of jewellery products
Master Will Limited	Hong Kong	Ordinary HK\$2	100%	Provision of administrative services
On Line Pacific Services Limited	BVI/ People's Republic of China ("PRC")	Ordinary US\$1,000	100%	Provision of quality control services

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

14. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ establishment and operations*	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held <i>(Continued)</i>				
Pacific Worldwide Marketing Services Limited	BVI/ United States of America, Europe, Middle East and South East Asia	Ordinary US\$1,000	100%	Provision of marketing services
佛山市順德區即達珠寶金行有限公司 (formerly known as “順德市即達珠寶金行有限公司”)	PRC	HK\$2,000,000**	100%	Processing of jewellery products

* Where the place of operations is different from its place of incorporation/ establishment.

** 佛山市順德區即達珠寶金行有限公司 is a wholly foreign-owned enterprise established in the PRC for an operating period of 11 years commencing from its date of establishment on 23 September 2002. The registered capital of 佛山市順德區即達珠寶金行有限公司 of HK\$2,000,000 has been fully paid up by the Group.

A subsidiary was incorporated during the year. A subsidiary, Mass Base Co., Ltd., has been dissolved during the year.

15. INVENTORIES

	2004 HK\$'000	2003 HK\$'000
Raw materials	47,110	29,185
Finished goods	34,587	23,282
	81,697	52,467

None of the inventories were stated at net realisable value as at 30 September 2004 (2003: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

16. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
1 – 30 days	44,231	36,836
31 – 60 days	37,014	15,751
61 – 90 days	5,057	1,952
	<u>86,302</u>	<u>54,539</u>

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Cash and bank balances	48,408	29,028	27	27
Bank deposits	19,365	28,346	–	–
Cash and cash equivalents	<u>67,773</u>	<u>57,374</u>	<u>27</u>	<u>27</u>

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

18. INTEREST-BEARING BANK BORROWINGS, SECURED

		Group	
	<i>Note</i>	2004	2003
		HK\$'000	HK\$'000
Bank overdrafts, secured	19	8,016	7,772
Trust receipt loans, secured	19	47,461	21,326
Bank loans, secured and repayable within one year	19	—	8,500
		55,477	37,598
Portion classified as current liabilities		(55,477)	(37,598)
Long term portion		—	—

19. BANKING FACILITIES

At 30 September 2004, the Group's banking facilities were secured by the corporate guarantees from the Company and certain subsidiaries of the Company.

20. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of goods purchased, is as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
1 – 30 days	14,581	12,073
31 – 60 days	1,791	1,935
61 – 90 days	427	507
	16,799	14,515

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

21. SHARE CAPITAL

	2004 HK\$'000	2003 HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>		
650,000,000 ordinary shares of HK\$0.01 each	<u>6,500</u>	<u>6,500</u>

There were no changes to the carrying amount or the number of ordinary shares in issue during the year.

22. SHARE OPTIONS

The Company operates a share option scheme ("Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Share Option Scheme include (i) any employee (whether full time or part time) of the Company, any of its subsidiaries or any entity ("Invested Entity") in which any member of the Group holds any equity interest, including any executive director (but excluding any non-executive director) of the Company, any of such subsidiaries or any Invested Entity; (ii) any non-executive directors (including independent non-executive directors) of the Company, any of its subsidiaries or any Invested Entity; (iii) any supplier of goods or services to any member of the Group or any Invested Entity; (iv) any customer of the Group or any Invested Entity; (v) any person or entity that provides or will provide research, development or other technological support to the Group or any Invested Entity; (vi) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity; and (vii) any adviser (professional or otherwise) or consultant to any area of business or business development of any member of the Group or any Invested Equity. The Share Option Scheme became effective on 3 September 2002 and, unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 12 August 2002.

The total number of shares of the Company which may be issued upon exercise of all options granted under the Share Option Scheme and any other share option scheme of the Group was limited to 10% (i.e. 65,000,000 shares) of the then issued share capital of the Company as at the date the Share Option Scheme became effective on 3 September 2002. Options carrying rights to subscribe for these 65,000,000 shares were fully granted to employees (excluding directors) and suppliers of goods or services and others of the Group in accordance with the rules of the Share Option Scheme on 29 April 2003.



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

22. SHARE OPTIONS *(Continued)*

On 27 June 2003, the Company's shareholders passed an ordinary resolution to refresh ("Refreshed Limit") the 10% general limit under the Share Option Scheme in accordance with the Listing Rules, in order to enable the Company to grant further options up to a maximum of 65,000,000 shares based on the then 650,000,000 issued shares. Options in respect of all the 65,000,000 shares available under the existing 10% "refreshed" general limit were fully granted to employees (excluding directors), suppliers of goods or services and others of the Group on 3 March 2004. The total number of shares in respect of which option had been granted under the Share Option Scheme and remained outstanding as at the date of this annual report was 130,000,000, representing 20% of the issued share capital of the Company at the date of this annual report. At the forthcoming annual general meeting of the Company, shareholders' approval shall be sought to refresh the 10% general limit on the grant of options under the Share Option Scheme, so as to allow for granting of further options carrying rights to subscribe for a maximum number of shares, representing 10% of the issued share capital of the Company as at the date of passing of the relevant resolution.

The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a Director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive Director, or to any of their respective associates, in excess of 0.1% of the shares of the Company in issue at any time and with an aggregate value (based on the closing price of the Company's shares as at the date of the grant) in excess of HK\$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK\$1 by the grantee. The exercise period of the share options granted is determinable by the Directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Share Option Scheme, whichever is the earlier.

The exercise price of the share options is determinable by the Directors but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

22. SHARE OPTIONS *(Continued)*

Movements in the share options granted under the Share Option Scheme during the year are as follows:

Eligible participants	Date of grant	Exercise price	Exercise period	Number of share option			At end of year
				At beginning of the year	Granted during the year	Exercised during the year	
Employees (excluding Directors)	29 April 2003	HK\$0.138	29 April 2003 to 28 April 2006	42,500,000	–	–	42,500,000
	3 March 2004	HK\$0.26	3 March 2004 to 2 March 2007	–	32,500,000	–	32,500,000
Suppliers of goods or services and others	29 April 2003	HK\$0.138	29 April 2003 to 28 April 2006	22,500,000	–	–	22,500,000
	3 March 2004	HK\$0.26	3 March 2004 to 2 March 2007	–	32,500,000	–	32,500,000
				<u>65,000,000</u>	<u>65,000,000</u>	<u>–</u>	<u>130,000,000</u>

The closing prices of the Company's shares on 28 April 2003 and 2 March 2004, immediately before the date of grant of the above share options were HK\$0.135 and HK\$0.27 respectively.

During the year and up to the date of this report, no share options were exercised, lapsed or cancelled. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 130,000,000 additional ordinary shares and cash proceeds to the Company of HK\$25,870,000 before the related share issue expenses.

As at the date of this report, no share options have been offered and/or granted to the Directors and chief executives of the Group under the Share Option Scheme.

The Directors consider it inappropriate to disclose the value of options granted under the Share Option Scheme. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, exercise price, exercise period, interest rate, expected volatility and other variables. The Directors believe that any calculation of the value of options as at the date of this report based on a number of speculative assumptions would not be meaningful.

Any options granted under the Share Option Scheme would not be recorded in the Company's or the Group's balance sheet until such time as the share options were exercised, and no charge would be recorded in the income statement or the balance sheet for their cost. Upon the exercise of the share options, the resulting shares issued would be recorded by the Company as additional share capital at the nominal value of the shares, and the excess of the exercise price per share over the nominal value of the shares would be recorded by the Company in the share premium account. Share options which were cancelled prior to their exercise dates would be deleted from the register of outstanding share options.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

23. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

Company

	Share premium <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 September 2002 and 1 October 2002	109,777	3,932	113,709
Net profit for the year <i>(Note 10)</i>	—	1,578	1,578
At 30 September 2003 and 1 October 2003	109,777	5,510	115,287
Interim dividend paid on 28 July 2004	—	(1,625)	(1,625)
Final dividend proposed	—	(3,250)	(3,250)
Net profit for the year <i>(Note 10)</i>	—	16,800	16,800
At 30 September 2004	<u>109,777</u>	<u>17,435</u>	<u>127,212</u>

Notes:

- (a) In accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.
- (b) As at 30 September 2004, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$130,462,000 (2003: HK\$115,287,000), of which HK\$3,250,000 (2003: Nil) has been proposed as final dividend for the year, subject to the restrictions stated in note (a) above.
- (c) The share premium account of the Company includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the group reorganization on 12 August 2002 over the nominal value of the share capital of the Company issued in exchange therefore; (ii) the premium arising from the new issue; less (iii) the premium arising from the capitalization issue.
- (d) The share premium account of the Group includes: (i) the difference between the combined net asset value of the subsidiaries acquired pursuant to the group reorganization on 12 August 2002 over the nominal value of the share capital of the Company issued in exchange therefore; (ii) the premium arising from the new issue; less (iii) the premium arising from the capitalization issue.

NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

2004



Year ended 30 September 2004

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow generated from operations

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Profit from operating activities	59,749	40,752
Interest income	(241)	(518)
Depreciation	10,134	4,067
Decrease / (increase) in prepayments, deposits and other receivables	1,983	(3,496)
Increase in inventories	(29,230)	(16,980)
Increase in trade receivables	(31,763)	(3,306)
Decrease in pledged bank deposit	—	758
Increase / (decrease) in trade payables	2,284	(9,829)
Increase in trust receipt loans, secured	26,135	17,251
Increase in short-term bank loans, secured	—	3,630
(Decrease) / increase in other payables and accruals	(315)	232
Net cash inflow generated from operations	<u>38,736</u>	<u>32,561</u>

(b) Analysis of changes in financing activities

	Short term bank loans, secured <i>HK\$'000</i>	Long-term bank loans, secured <i>HK\$'000</i>
At 1 October 2002	4,870	1,002
Cash inflow / (outflow) from financing activities, net	<u>3,630</u>	<u>(1,002)</u>
At 30 September 2003 and 1 October 2003	8,500	—
Cash outflow from financing activities	<u>(8,500)</u>	<u>—</u>
At 30 September 2004	<u>—</u>	<u>—</u>



NOTES TO THE FINANCIAL STATEMENTS *(Continued)*

Year ended 30 September 2004

25. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2003: Nil).

The Company has given guarantees in favour of certain banks to the extent of approximately HK\$64,000,000 (2003: HK\$39,500,000) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2004, the banking facilities utilised by these subsidiaries amounted to approximately HK\$55,477,000 (2003: HK\$37,598,000).

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings were 2 years.

As at 30 September 2004, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2004	2003
	HK\$'000	HK\$'000
Within one year	166	855
In the second to fifth years, inclusive	36	158
	<u>202</u>	<u>1,013</u>

The Company did not have any operating lease arrangements as at 30 September 2004 (2003: Nil).

27. CAPITAL COMMITMENTS

As at 30 September 2004, the Group had outstanding capital commitment of approximately HK\$3,020,000 (2003: Nil) for the acquisition of machinery.

The Company did not have any significant capital commitments as at 30 September 2004.

28. ULTIMATE HOLDING COMPANY

The directors of the Company consider that the ultimate holding company of the Company as at 30 September 2004 was Equity Base Holdings Limited, which was incorporated in the British Virgin Islands.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19 January 2005.