Annual Report 2007

MING FUNG JEWELLERY GROUP LIMITED
明 豐 珠 寶 集 團 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 0860)

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wong Chi Ming, Jeffry *(Chairman)*
Ms. Lui Ching Han, Magda
(resigned on 3 April 2007)
Mr. Chung Yuk Lun
Mr. Yu Fei, Philip

Independent Non-Executive Directors

Mr. Lee Pak Chung
Mr. Chan Man Kiu
Mr. Tam Ping Kuen, Daniel

AUDIT COMMITTEE

Mr. Lee Pak Chung *(Chairman)*
Mr. Chan Man Kiu
Mr. Tam Ping Kuen, Daniel

REMUNERATION COMMITTEE

Mr. Chan Man Kiu *(Chairman)*
Mr. Lee Pak Chung
Mr. Tam Ping Kuen, Daniel

NOMINATION COMMITTEE

Mr. Tam Ping Kuen, Daniel *(Chairman)*
Mr. Chan Man Kiu
Mr. Lee Pak Chung

COMPANY SECRETARY

Mr. Lo Hang Fong

QUALIFIED ACCOUNTANT

Mr. Tsao Hoi Ho

LEGAL ADVISORS

Stevenson, Wong & Co.

REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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
Tricor Tengis Limited
26th Floor, Tesbury Centre
28 Queen's Road East, Wanchai
Hong Kong

AUDITOR

Hopkins CPA Limited
3rd Floor, Sun Hung Kai Centre
30 Harbour Road
Hong Kong

HOME PAGE

http://www.mingfung.com

Chairman's Statement

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 2007.

Financial Performance

For the year ended 30 September 2007, the Group achieved a record turnover of approximately HK$610.3 million, representing a significant increase of approximately 27.0% as compared to approximately HK$480.4 million in previous year. Net profit from ordinary activities attributable to shareholders was approximately HK$97.2 million, representing an increase of 70.5% over the previous year. Gross profit margin was approximately 34.7% as compared to 28.7% in last year, while net profit margin was approximately 15.9% compared to 11.9% in last year.

Business review

Attributable mainly to the expansion strategy into the diamond jewellery retail markets in PRC under our own brand name, SAVANTI, and the robust growth in consumer demand of fine diamond jewellery, the Group maintained satisfactory business growth across its various markets worldwide.

Followed by the opening of the first store in JB Cityplaza, Shanghai in 2005, SAVANTI has rapidly and profitably expanded into the luxury retail markets in PRC. By the end of the financial year 2007, SAVANTI already had 26 self-operated stores spread across major cities in PRC, including Beijing, Shanghai, Hangzhou, Tianjin, Dalian, Harbin, Changchun, Chongqing, Chengdu, Mudanjiang and Qitaihe, as compared to only 6 stores in Shanghai, Hangzhou and Tianjin in 2006.

Overall, the Group's gross profit margin achieved an outstanding record of approximately 34.7%, attributed to persistent increase in domestic sales, as well as improvements in production efficiency. Domestic sales of the SAVANTI chain stores provided considerably higher operating profit margins than the export business, notably 36.6% in 2007 versus 32.8% in 2006. Net profit from ordinary activities attributable to shareholders were approximately HK$97.2 million in the financial year 2007, increased by 70.5% when compared to approximately HK$57.0 million in the previous year. Meanwhile, the net profit margin improved to 15.9% in 2007 from the prior level of 11.9% in 2006.

During the year, the selling and distribution expenses of the Group amounted to approximately HK$64.2 million (2006: HK$39.7 million). The increase in selling and distribution expenses was mainly attributed to the Group's increased efforts placed on sales, marketing, promotion and exhibition activities. Despite the increasingly diversified business activities, the Group's administrative expenses for the year remained fairly stable at approximately HK$23.8 million (2006: HK$21.2 million), representing a mild increase of 12.3% as compared with that of the previous year.

Chairman's Statement

Future Plans and Prospect

During the year under review, higher growth in net profits from ordinary activities was mainly driven by the higher number of retail stores in PRC, despite the fact that only 6 out of all 26 stores were reflecting full-year results, while as many as 20 stores were reflecting non-full year results. 11 out of these 20 stores reflect less than six month results. It is anticipated that contribution to the Group will be much more prominent as the results of the stores will be fully reflected next year.

The Group will continue to strive its best to further expand the retail business in PRC. Since SAVANTI has established its sound reputation amongst the various renowned nationwide department store operators, opening new stores is likely to become easier. During the financial year, SAVANTI was able to open a total of 3 new stores in Beijing within two months. Therefore, the Group expects SAVANTI to continue on its fast track on opening stores in PRC, with an aim to further improve the Group's profit margin as well as the share of domestic sales in PRC. The domestic sales in PRC has already reached 20% of the Group's total sales for the year under review and has surpassed 30% in the month of September 2007 alone.

For the export business, the Group will endeavour to preserve its present worldwide clientele by various marketing strategies as well as maintaining its continued presence in major international jewellery trade fairs. The Group expects to maintain stable sales to the United States while achieving moderate sales growth in Europe and the Middle East.

In summary, the Group has positioned itself well to benefit from the booming luxury retail markets in PRC through the launch of its retail network by its own brand name, SAVANTI. The ever-increasing jewellery retail demand in PRC is likely to continue to fuel the Group's business. The Group expects to continue on its leading role at producing fine diamond jewellery with elements of contemporary fashion, utilising its metallurgical knowledge, stylish designs and jewellery craftsmanship.

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 support to the Group.

Wong Chi Ming, Jeffry
Chairman

Hong Kong
11 January 2008

Management Discussion and Analysis

Financial Review

During the year ended 30 September 2007, the turnover of the Group was about HK$610.3 million, representing an increase of about 27.0% as compared to previous year. The increase in turnover of the Group for the year was attributable to the expansion in the diamond jewellery retail markets in PRC and marketing promotion in a series of major international jewellery trade shows throughout the year.

The net profit from ordinary activities attributable to shareholders was about HK$97.2 million, representing a significant increase of 70.5% over the previous year. The gross profit margin of the Group was about 34.7% as compared to 28.7% in last year. The net profit margin of the Group for the year was approximately 15.9% as compared to 11.9% in last year.

The operating expenses net of other revenue and other than those incurred for research and development amounted to approximately HK$86.6 million (2006: HK$58.8 million). The percentage of these expenses to turnover was approximately 14.2% (2006: 12.2%), which was in line with our internal cost budget.

For the year ended 30 September 2007, the Group invested approximately HK$17.2 million (2006: HK$9.1 million) in property, plant and equipment.

Operations Review

Products manufactured were sold to a well-diversified global market, including the United States, Europe, Middle East and Asia. The Group maintained steady sales to the United States while achieving moderate growth in sales to Europe and Middle East. During the year, the United States accounted for only 37.1% of the Group's turnover when compared to 46.1% in 2006. Meanwhile, the sales to Europe accounted for about 35.0% (2006: 39.4%) of the Group's turnover, and the sales to Middle East and Asia accounted for about 27.9% (2006: 14.5%) of the Group's turnover.

Liquidity And Financial Resources

For the year ended 30 September 2007, the Group improved its net current assets position from HK$263.5 million to HK$522.3 million. The net current assets comprise of inventories of HK$360.4 million (2006: HK$214.7 million), trade receivables of about HK$134.1 million (2006: HK$114.7 million), other receivables of about HK$13.3 million (2006: HK$10.4 million), cash and bank balances of about HK$149.5 million (2006: HK$83.4 million) and current liabilities of about HK$134.9 million (2006: HK$159.7 million).

Increases in inventories and trade receivables were in line with the increase in the turnover for the year and more inventories have been reserved for customer orders and retail stores. The Group's inventory turnover, trade receivables turnover and trade payables turnover period were 330 days, 80 days and 18 days respectively. These turnover periods were consistent and complied with the respective policies of the Group on credit terms granted to customers and credit terms obtained from suppliers.

Management Discussion and Analysis

During the year, the Group financed its operations and investing activities through a combination of shareholders' equity, internal cash flows and interest bearing bank borrowings. The capital structure of the Company solely consists of share capital. As at 30 September 2007, the shareholders' equity of the Group amounted to HK$432.5 million (2006: HK$308.7 million). The Group's total interest bearing bank borrowings as at 30 September 2007 amounted to approximately HK$212.4 million (2006: HK$123.9 million) representing an increase of approximately HK$88.5 million. The interest bearing bank borrowings were mainly used for working capital and carried at commercial lending interest rates. The maturity of interest bearing bank borrowings comprised approximately HK$32.4 million (2006: HK$81.4 million) and HK$180.0 million (2006: HK$42.5 million) repayable within 1 year and repayable more than 1 year respectively. The Group's gearing ratio for the year was 49.1% (2006: 40.1%). On the whole, the Group maintained a stable financial position during the year under review.

The sales and purchases of the Group were mostly denominated in the US dollars, Hong Kong dollars and Renminbi. The cash and cash equivalents and interest bearing borrowings of the Group were denominated in Hong Kong dollars, the US dollars and Renminbi. Since the Group's exposure to fluctuations in foreign exchange rates was minimal, the Group did not use any hedging instruments to minimise the exposure to foreign currency fluctuations.

As at 30 September 2007, the Group did not have any capital commitments (2006: Nil). The Group also did not have any significant contingent liabilities as at 30 September 2007 (2006: Nil).

As at 30 September 2007, the Company provided guarantees in favour of certain banks to the extent of approximately HK$411.9 million (2006: HK$245.1 million) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2007, the banking facilities utilised by these subsidiaries amounted to approximately HK$212.4 million (2006: HK$123.9 million).

Employee and Remuneration Policies

As at 30 September 2007, the Group had approximately 338 employees with remuneration of approximately HK$13.5 million. The Group's emolument policies are formulated according to the performance of individual employee and will be reviewed regularly every year.

During the year under review, the Group did not grant any share options.

Save as disclosed above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2007 interim report.

Directors and Senior Management

Directors

Executive Directors

Mr. Wong Chi Ming, Jeffry, aged 50, 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 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.

Mr. Chung Yuk Lun, aged 47, is a Director of the Company. He is a fellow member of the Association of Chartered Certified Accountants, an associate member of the Hong Kong Institute of Certified Public Accountants and an Associate Chartered Accountant (England and Wales). Mr. Chung is responsible for the finance and accounting matters of the Group. He was appointed as a director on 28 February 2002. He is also an executive director of Radford Capital Investment Limited and an independent non-executive director of Heritage International Holdings Limited, both are companies listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Yu Fei, Philip, aged 50, is a Director of the Company. He obtained a Bachelor of Science degree from California State University, Los Angeles. Mr. Yu is responsible for the sales and marketing of the Group's products and has over 21 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 43, was appointed as an Independent Non-Executive Director in August 2002. He is a Certified Public Accountant in Hong Kong practicing under his name Lee Pak Chung, Certified Public Accountant (Practising) and has over 19 years of experience in accounting, auditing and corporate finance. He holds a Bachelor of Science degree in Computer Studies and a Master of Business Administration degree in Finance. He is also an independent non-executive director of Global Green Tech Group Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Mr. Chan Man Kiu, aged 46, 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 over 21 years of experience in the financial services sector, excelling in development and management of internal operations, business integration and financial controls.

Mr. Tam Ping Kuen, Daniel, aged 44, joined the Company as an Independent Non-Executive Director in May 2006. He is the founder of Daniel Tam & Co., Certified Public Accountants (Practising). Mr. Tam holds a Master of Financial Economics degree from the University of London and is an associate member of Hong Kong Institute of Certified Public Accountants and a fellow member of Association of Chartered Certified Accountants. He is also an independent non-executive director of Warderly International Holdings Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited.

Directors and Senior Management

Senior Management

Mr. Chiu Hung Wai, Aaron, aged 50, is the Chief Executive of the Asia Pacific region. Mr. Chiu joined the Group in February 2005 and is responsible for the sales and distribution of jewellery products for our retail and wholesale business in the PRC. Mr. Chiu obtained a Bachelor of Science degree from California State University at Long Beach, United States. He has over 21 years of experience in managing national sales chains.

Ms. Chang Sze Man, Rosita, aged 38, is the Marketing Director of the Asia Pacific region. Ms. Chang joined the Group in August 2006 and is responsible for the marketing programs for our retail and wholesale business in the PRC. She obtained a Bachelor of Arts degree from the University of Hong Kong. She has more than 11 years of marketing experience with multi-national companies in the PRC and Hong Kong.

Mr. Chiao Lee, aged 41, is the Corporate Finance Director of the Group. Mr. Chiao joined the Group in April 2006 and is responsible for corporate finance matters of the Group. Mr. Chiao obtained a Master of Business Administration degree from the University of Illinois at Urbana-Champaign, United States. He has over 13 years of experience serving in various internationally-renowned investment banks, with concentration in the fields of bond analysis, rating advisory and corporate finance.

Mr. Tsao Hoi Ho, aged 42, is the Qualified Accountant of the Group. Mr. Tsao joined the Group in December 2005 and is responsible for the financial and accounting matters of the Group. Mr. Tsao holds a Master of Business Administration degree from the University of Warwick. He is also a member of the Hong Kong Institute of Certified Public Accountants and a member of the Institute of Chartered Secretaries & Administrators. He has worked in several listed companies before joining the Group and has over 18 years of experience in the field of finance, auditing, company secretary and corporate finance.

Mr. Ji Yi Dong, aged 40, 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 7 years of experience in sales and distribution of jewellery products.

Mr. Zhou Zhen Bing, aged 38, is the Production Manager of the Group. Mr. Zhou joined the Group in September 2002 and is responsible for organising and coordination of jewellery production of the Group. He has over 9 years of experience in production and operational management.

Mr. Liang Jing Xiong, aged 44, 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 20 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 28 March 2008 at Lower Lobby, Plaza I-III, Novotel Century Hong Kong, 238, Jaffe 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 auditor of the Company for the year ended 30 September 2007;

2. To declare a final dividend for the year ended 30 September 2007;

3. To re-elect Mr. Lee Pak Chung and Mr. Chan Man Kiu as directors and to authorise the board of directors to fix the directors' remuneration;

4. To re-appoint Hopkins CPA Limited as auditor 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

(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% 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 earliest 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)."

6. To consider 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% 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 earliest 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."

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 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% of the aggregate nominal amount of the share capital of the Company in issue as at the date of passing of this resolution."

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

Hong Kong
22 January 2008

Notice of Annual General Meeting

Registered office:
Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman, KY1-1111
Cayman Islands

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 Mr. Wong Chi Ming, Jeffry, Mr. Chung Yuk Lun and Mr. Yu Fei, Philip and independent non-executive directors are Mr. Lee Pak Chung, Mr. Chan Man Kiu and Mr. Tam Ping Kuen, Daniel.

Notes:

(1) A member of the Company entitled to attend and vote at the aforesaid meeting is entitled to appoint one or (if he holds 2 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, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, 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 26 March 2008 to 28 March 2008 (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, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 pm. on 25 March 2008.

Report of the Directors

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 2007.

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 16 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 geographical segments based on the location of customers and business segments for the year ended 30 September 2007 is set out in note 6 to the financial statements.

Results and Dividends

The Group's results for the year ended 30 September 2007 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 34 to 74.

During the year, an interim dividend of HK$2,302,000 (2006: HK$2,054,000) was declared and paid on 8 August 2007. The Directors proposed a final dividend of HK0.5 cent per share (2006: HK0.5 cent) for the year ended 30 September 2007 to be payable to shareholders whose names appear in the register of members of the Company on 28 March 2008. This proposed dividend was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ended 30 September 2007.

Closure of Register of Members

The register of members will be closed from 26 March 2008 to 28 March 2008 (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 forthcoming annual general meeting, all transfers of shares accompanied by the relevant share certificates must be lodged with the Hong Kong branch share registrars of the Company, Tricor Tengis Limited at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 25 March 2008.

Report of the Directors

Summary of 5 Years' Financial Information

The following is a summary of the published consolidated results and of the assets and liabilities of the Group for each of the 5 years ended 30 September 2007, prepared on the bases set out in the note below:

Results

	Year ended 30 September				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover	**610,257**	480,372	429,959	353,967	259,563
Profit from operating activities	**125,377**	78,567	68,285	59,749	40,752
Finance costs	**(10,945)**	(9,276)	(3,953)	(2,354)	(1,274)
Profit before tax	**114,432**	69,291	64,332	57,395	39,478
Tax	**(17,258)**	(12,273)	(10,149)	(10,421)	(7,629)
Net profit from ordinary activities attributable to shareholders	**97,174**	57,018	54,183	46,974	31,849

Assets and Liabilities

	At 30 September				
	2007	2006	2005	2004	2003
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Non-current assets	**90,192**	87,739	94,696	71,155	64,946
Current assets	**657,240**	423,125	308,742	240,967	171,558
Total assets	**747,432**	510,864	403,438	312,122	236,504
Current liabilities	**134,933**	159,675	157,003	114,670	84,401
Non-current liabilities	**180,000**	42,500	–	–	–
Total liabilities	**314,933**	202,175	157,003	114,670	84,401
Net assets	**432,499**	308,689	246,435	197,452	152,103

Note: The results of the Group for the years ended 30 September 2003, 2004, 2005 and 2006 and the assets and liabilities of the Group as at 30 September 2003, 2004, 2005 and 2006 are extracted from the audited financial statements. The results of the Group for the year ended 30 September 2007 and the assets and liabilities of the Group as at 30 September 2007 are those set out in the financial statements on pages 34 and 35 respectively.

Report of the Directors

Property, Plant and Equipment

Details of movements in the Group's property, plant and equipment during the year are set out in note 15 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 25 to the financial statements and in the consolidated statement of changes in equity respectively.

Distributable Reserves

As at 30 September 2007, the Company had distributable reserves of approximately HK$191,804,000 (2006: HK$145,642,000), of which HK$3,837,000 (2006: HK$3,488,000) 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$149,176,000 (2006: HK$119,822,000) 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 5 largest customers accounted for approximately 31% of the total sales for the year and the sales to the largest customer included therein amounted to approximately 7%.

Purchases from the Group's 5 largest suppliers accounted for approximately 50% of the total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 17%.

None of the Directors, or any of their associate(s) 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 5 largest customers or 5 largest suppliers.

Report of the Directors

Directors

The Directors during the year were as follows:

Executive Directors

Mr. Wong Chi Ming, Jeffry *(Chairman)*
Ms. Lui Ching Han, Magda *(resigned on 3 April 2007)*
Mr. Chung Yuk Lun
Mr. Yu Fei, Philip

Independent Non-Executive Directors

Mr. Lee Pak Chung
Mr. Chan Man Kiu
Mr. Tam Ping Kuen, Daniel

In accordance with Articles 108(A) of the Company's articles of association, 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.

Biographical Details of Directors and Senior Management

Biographical details of the Directors and the senior management of the Group are set out on pages 7 and 8 of the annual report.

Directors' Service Contracts

Mr. Wong Chi Ming, Jeffry, as executive director has entered into a service contract with the Company, his term of service commenced from 1 August 2002 for an initial period of 36 months and expired on 31 July 2005 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment.

Mr. Chung Yuk Lun as executive director has entered into a service contract with the Company, his term of service commenced from 1 August 2002 for an initial period of 12 months and expired on 31 July 2003 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment.

Mr. Yu Fei, Philip as executive director has entered into a service contract with the Company, his term of service commenced from 2 April 2004 for an initial period of 24 months and expired on 1 April 2006 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment.

The existing service contracts of the executive directors will continue thereafter until terminated by either party giving not less than 3 months' notice in writing to the other party.

Directors' Service Contracts *(continued)*

Save as disclosed above, no Director proposed to have a service contract with the Company which is not determinable by the Company within 1 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 Corporations

As at 30 September 2007, the interests of the Directors in the shares and underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited ("Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") were as follows:

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

Notes:

(a) The interest disclosed represents the 416,000,000 shares held by Equity Base Holdings Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Wong Chi Ming, Jeffry by virtue of Section 344(3) of the SFO.

Directors' Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporations *(continued)*

Notes: (continued)

(b) All the interests disclosed above represent long positions in the shares of the Company.

(c) Ms. Lui Ching Han, Magda, the spouse of Mr. Wong Chi Ming, Jeffry is deemed to be interested in these shares under the SFO.

Mr. Wong Chi Ming, Jeffry is the sole shareholder of Equity Base Holdings Limited which is the controlling shareholder of the Company.

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

Save as disclosed above, as at 30 September 2007, none of the Directors, or their associate(s) had any interests or short positions in the shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors are taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (c) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

Directors' Rights to Acquire Shares or Debentures

Apart from the share option scheme disclosures in note 24 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 24 to the financial statements.

Substantial Shareholders

As at 30 September 2007, 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**
Equity Base Holdings Limited	416,000,000 *(Notes (a)* and *(c))*	54.21%
Value Partners Asia Fund, LLC	52,130,000 *(Notes (b)* and *(c))*	6.79%
Value Partners Limited	52,130,000 *(Notes (b)* and *(c))*	6.79%
Cheah Cheng Hye	52,130,000 *(Notes (b)* and *(c))*	6.79%
NTAsian Discovery Master Fund	39,060,000 *(Note (c))*	5.09%

Notes:

(a) These interests are also included as corporate interests of Mr. Wong Chi Ming, Jeffry, as disclosed under the heading "Directors' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations". Ms. Lui Ching Han, Magda, the spouse of Mr. Wong Chi Ming, Jeffry is deemed to be interested in these shares under the SFO.

(b) The shares are held by Value Partners Asia Fund, LLC under the management of Value Partners Limited in its capacity as an investment manager and Cheah Cheng Hye is deemed to be interested in these shares as these interests are his corporate interests under the SFO.

(c) All the interests stated above represent long positions in the shares of the Company.

Substantial Shareholders *(continued)*

Save as disclosed above, as at 30 September 2007, 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.

Interest Bearing Bank Loans and Other Borrowings

Particulars of interest bearing bank loans and other borrowings of the Company and the Group as at 30 September 2007 are set out in notes 21 and 22 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 under "Employee benefits: (a) Pension obligations" on page 45.

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 16 January 2008, the latest practicable date to ascertain such information prior to the issue of this annual report.

Corporate Governance

The Company has complied throughout the year ended 30 September 2007 with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules with deviation on role segregation of chairman and chief executive officer.

Code Provision A.2

Mr. Wong Chi Ming, Jeffry is the Chairman of the board of directors. The Company has no such title as the chief executive officer and the daily operation and management of the Company is monitored by the executive directors as well as the senior management.

The Board is of the view that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting the operations of the Company.

Further information on the Company's corporate governance practices is set out in the Corporate Governance Report contained in this annual report.

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 of the Listing Rules. The Company has made specific enquiry on 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 Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed 3 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 of the Listing Rules 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 3 independent non-executive directors, who have reviewed the financial statements for the year ended 30 September 2007.

Auditor

Hopkins CPA Limited has audited the financial statements for the year. Hopkins CPA Limited has expressed its willingness to continue in office and the Board recommends that it be reappointed. A resolution proposing the reappointment of Hopkins CPA Limited as auditor of the Company and giving authority to the directors to determine its remuneration will be submitted to the forthcoming annual general meeting.

On behalf of the Board
Ming Fung Jewellery Group Limited
Wong Chi Ming, Jeffry
Chairman

Hong Kong
11 January 2008

Corporate Governance Report

Corporate Governance Practices

The board of directors of the Company (the "Board") is of the view that corporate governance is vital to the continued success of the Company and has therefore adopted various measures to ensure that a high standard of corporate governance is upheld. The Company has applied the principal and complied with the requirements of the Code on Corporate Governance Practices (the "Code") of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange of Hong Kong Limited (the "SEHK") save and except deviation as more specifically described below. The current practices will be reviewed and updated regularly so that the latest development in corporate governance can be followed and observed.

Directors

Directors' Securities Transactions

The Company has adopted the code of conduct regarding directors' securities transactions as set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules. Having made specific enquiry of all directors, they all have confirmed that they have complied with the required standard as set out in the Model Code throughout the year.

Board of Directors

The Board comprises:

Executive Directors	:	Mr. Wong Chi Ming, Jeffry *(Chairman)* Ms. Lui Ching Han, Magda *(resigned on 3 April 2007)* Mr. Chung Yuk Lun Mr. Yu Fei, Philip
Independent Non-Executive Directors	:	Mr. Lee Pak Chung Mr. Chan Man Kiu Mr. Tam Ping Kuen, Daniel

Each independent non-executive director gives an annual confirmation of his independence to the Company, and the Company considers them to be independent under Rule 3.13 of the Listing Rules.

During the financial year ended 30 September 2007, a total of 28 Board meetings were held and the attendance of directors is set out as follows:

Directors *(continued)*

Board of Directors *(continued)*

Name of director	Number of regular Board meetings attended in the financial year ended 30 September 2007	Attendance rate
Mr. Wong Chi Ming, Jeffry	5	100%
Ms. Lui Ching Han, Magda	3	100% (during appointment period)
Mr. Chung Yuk Lun	5	100%
Mr. Yu Fei, Philip	5	100%
Mr. Lee Pak Chung	5	100%
Mr. Chan Man Kiu	5	100%
Mr. Tam Ping Kuen, Daniel	5	100%

Some of the Board meetings for day-to-day operations of the Group were attended by executive directors and the attendance of executive directors is set out as follows:

Name of director	Number of other Board meetings attended in the financial year ended 30 September 2007	Attendance rate
Mr. Wong Chi Ming, Jeffry	23	100%
Ms. Lui Ching Han, Magda	8	67% (during appointment period)
Mr. Chung Yuk Lun	20	87%
Mr. Yu Fei, Philip	22	96%

The Board is responsible for following types of decisions:

(a) formulation of operational and strategic direction of the Group;
(b) monitoring the financial performance of the Group;
(c) overseeing the performance of the management;
(d) ensuring a prudent and effective framework of internal control is in place to enable risks to be assessed and managed; and
(e) setting the Group's values and standards.

while daily operation and administration are delegated to the management.

Directors *(continued)*

Board of Directors *(continued)*

The Board held meetings from time to time whenever necessary. At least 14 days notice of regular Board meetings is given to all directors and they can include matters for discussion in the agenda as they think fit. The agenda accompanying Board papers are sent to all directors at least 3 days before the date of every Board meeting in order to allow sufficient time for the directors to review the documents.

Minutes of every Board meeting are circulated to all directors for their perusal and comments prior to confirmation of the minutes at the following Board meeting. The Board also ensures that it is supplied in a timely manner with all necessary information in a form and of a quality appropriate to enable it to discharge its duties.

Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed and they are also entitled to have full access to Board papers and related materials so that they are able to make an informed decision and to discharge their duties and responsibilities.

Chairman and Chief Executive Officer

Mr. Wong Chi Ming, Jeffry ("Mr. Wong") is the chairman of the Company and co-founder of the Company. Mr. Wong has extensive experience in the jewellery industry who is responsible for the overall strategic planning and policy making of the Group.

The Company has no such title as the chief executive officer and therefore the daily operation and management of the Company is monitored by the executive directors as well as the senior management.

The Board is of the view that although there is no chief executive officer, the balance of power and authority is ensured by the operation of the Board, which comprises experienced individuals and meet from time to time to discuss issues affecting operation of the Company.

Ms. Lui Ching Han, Magda who is the spouse of Mr. Wong resigned as director of the Company with effect from 3 April 2007.

Corporate Governance Report

Appointment and Re-election of Directors

Each executive director is appointed for a specific term which is renewable automatically. All independent non-executive directors are appointed for a specific term which may be extended as each and the Company may agree but they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the articles of association of the Company.

The current articles of association, which was adopted in the annual general meeting on 3 March 2006, provide that subject to the manner of retirement by rotation of directors as from time to time prescribed by the Listing Rules, at each annual general meeting, one-third of the directors for the time being shall retire from office by rotation and that every director shall be subject to retirement by rotation at least once every 3 years.

Accountability and Audit

Financial Reporting

The management provides such explanation and information to the Board and reports regularly to the Board on financial position and prospects of the business of the Company so as to enable the Board to make an informed assessment of the financial and other information put before the Board for approval.

The directors acknowledge their responsibilities for preparing the financial statements of the Group. The directors' responsibilities in the preparation of the financial statements and the auditor's responsibilities are set out in the Independent Auditor's Report. The responsibility of the external auditor is to form an independent opinion, based on their audit, on those consolidated financial statements prepared by the Board and to report their opinion to the shareholders of the Company. A statement by auditor about their reporting responsibility is set out in the Independent Auditor's Report.

Internal Control and Risk Management

The Board is responsible for the Company's internal control system and risk management procedures and for reviewing the effectiveness of the Company's internal control. The Board has conducted a review of, and is satisfied with the effectiveness of the system of internal controls of the Group.

The Group is committed to the identification, monitoring and management of risks associated with its business activities. The Group's internal control system is designed to provide reasonable assurance against material misstatement or loss and to manage and eliminate risks of failure in operational systems and fulfillment of business objective. The system includes a defined management structure with segregation of duties and a cash management system such as monthly reconciliation of bank accounts.

Internal Control and Risk Management *(continued)*

The Board reviews the effectiveness of the Group's material internal controls. Based on information furnished to it and on its own observations, the Board is satisfied with present internal controls of the Group.

Audit Committee

The audit committee of the Company (the "Audit Committee") comprises 3 independent non-executive directors. All of them have appropriate professional qualifications or accounting or related financial management expertise. Mr. Lee Pak Chung is the chairman of the Audit Committee. No member of the Audit Committee is a member of the former or existing auditor of the Company.

According to the existing terms of reference of the Audit Committee, its major roles and functions are as follows:

(a) to make recommendation to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of resignation or dismissal of that auditor;

(b) to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standard;

(c) to develop and implement policy on the engagement of the external auditor to provide non-audit services;

(d) to monitor integrity of the interim and annual financial statements and interim and annual report and accounts, and to review significant financial reporting judgments contained in them;

(e) to review the Company's financial controls, internal control and risk management systems;

(f) to discuss with the management the system of internal control system;

(g) to consider any findings or major investigations of internal control matters as delegated by the Board or on its own initiative and management's response;

(h) to review the Group's financial and accounting policies and practices;

(i) to review the external auditor's management letter, any material queries raised by the auditor to management in respect of the accounting records, financial accounts or systems of control and management's response;

Audit Committee *(continued)*

(j) to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter;

(k) to report to the Board on the matters raised in the Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules;

(l) to consider other topics within the duties mentioned above as requested from time to time by the Board;

(m) to review arrangements by which employees of the Company may raise concerns about possible improprieties in financial reporting, internal control or other matters; and

(n) to act as the key representatives body for overseeing the Company's relation with the external auditor.

According to the current terms of reference, meetings of the Audit Committee shall be held at least twice a year. 2 meetings were held for the year ended 30 September 2007. The attendance of each member is set out as follows:

Name of director	Number of meetings attended in the financial year ended 30 September 2007	Attendance rate
Mr. Lee Pak Chung	2	100%
Mr. Chan Man Kiu	2	100%
Mr. Tam Ping Kuen, Daniel	2	100%

At the meetings held during the year, in performing its duties in accordance with its terms of reference, the work performed by the Audit Committee included:

(a) review and supervise the financial reporting process and internal control system of the Company and its subsidiaries; and

(b) review the financial statements for the year ended 30 September 2006 and 6 months ended 31 March 2007 respectively with reference to the scope of the terms of reference.

Auditor's Remuneration

During the financial year ended 30 September 2007, the fees charged by the Company's auditor in respect of audit and non-audit services amounted to approximately HK$1,500,000 and HK$249,000 respectively.

Remuneration of Directors and Senior Management

Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 31 March 2006 comprising the 3 independent non-executive directors. Mr. Chan Man Kiu is the chairman of the Remuneration Committee.

According to the terms of reference of the Remuneration Committee, its major roles and functions are as follows:

(a) to make recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration;

(b) to have the delegated responsibility to determine the specific remuneration packages of all executive directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive directors;

(c) to consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

(d) to review and approve performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(e) to review and approve the compensation payable to executive directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

(f) to review and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate; and

(g) to ensure that no director or any of his associates is involved in deciding his own remuneration.

Remuneration of Directors and Senior Management *(continued)*

Remuneration Committee *(continued)*

Meeting of the Remuneration Committee shall be held at least once a year. A meeting was held during the year ended 30 September 2007. During the meeting, remuneration packages to the directors and senior management for the year ended 30 September 2007 has been approved.

The attendance of each member is set out as follows:

Name of director	Number of meetings attended in the financial year ended 30 September 2007	Attendance rate
Mr. Chan Man Kiu	1	100%
Mr. Lee Pak Chung	1	100%
Mr. Tam Ping Kuen, Daniel	1	100%

The Company has adopted a share option scheme which became effective on 3 September 2002, which serves as an incentive to attract, retain and motivate staff. Details of the share option scheme are set out in note 24 to the financial statements. The emolument payable to directors depends on their respective contractual terms under the service contracts and the appointment letters, and as recommended by the Remuneration Committee. Details of the directors' emolument are set out in note 9 to the financial statements.

Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 31 March 2006 comprising the 3 independent non-executive directors. Mr. Tam Ping Kuen, Daniel is currently the chairman of the Nomination Committee.

According to the terms of reference of the Nomination Committee, its major roles and functions are as follows:

(a) review the structure, size and composition (including the skills, knowledge and experience) of the Board on a regular basis and make recommendations to the Board regarding any proposed changes;

(b) identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individual nominated for directorships;

(c) assess the independence of independent non-executive directors;

(d) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors in particular the chairman; and

(e) other matters as may be delegated by the Board.

Meeting of the Nomination Committee shall be held at least once a year. A meeting was held during the year ended 30 September 2007. Issues concerning the resignation of Ms. Lui Ching Han, Magda were discussed.

The attendance of each member is set out as follows:

Name of director	**Number of meetings attended in the financial year ended 30 September 2007**	**Attendance rate**
Mr. Tam Ping Kuen, Daniel	1	100%
Mr. Lee Pak Chung	1	100%
Mr. Chan Man Kiu	1	100%

Independent Auditor's Report

HOPKINS CPA LIMITED
3/F, Sun Hung Kai Centre
30 Harbour Road
Hong Kong

Independent Auditor's Report to the Members of:–
Ming Fung Jewellery Group Limited
(Incorporated in Cayman Islands with limited liability)

We have audited the consolidated financial statements of the Company set out on pages 34 to 74, which comprise the consolidated and company balance sheets as at 30 September 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 30 September 2007 and of the Group's results and cash flows for the year ended in accordance with HKFRSs and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Hopkins CPA Limited
Albert Man-Sum Lam
Practising Certificate Number P02080

Hong Kong
11 January 2008

Consolidated Income Statement

Year ended 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
TURNOVER	5	610,257	480,372
COST OF SALES		(398,325)	(342,687)
GROSS PROFIT		211,932	137,685
OTHER REVENUE	7	1,441	2,147
SELLING AND DISTRIBUTION EXPENSES		(64,210)	(39,730)
ADMINISTRATIVE EXPENSES		(23,786)	(21,218)
OTHER OPERATING EXPENSES		–	(317)
PROFIT FROM OPERATING ACTIVITIES	8	125,377	78,567
FINANCE COSTS	10	(10,945)	(9,276)
PROFIT BEFORE TAX		114,432	69,291
TAX	11	(17,258)	(12,273)
NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS		97,174	57,018
DIVIDENDS	13		
Interim		2,302	2,054
Proposed final		3,837	3,488
		6,139	5,542
EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS	14		
– Basic		HK13.2 cents	HK8.5 cents
– Diluted		N/A	HK8.4 cents

Consolidated Balance Sheet

At 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**90,192**	87,739
CURRENT ASSETS			
Prepayments, deposits and other receivables		**13,283**	10,359
Inventories	17	**360,351**	214,650
Trade receivables	18	**134,058**	114,690
Cash and cash equivalents	19	**149,548**	83,426
		657,240	423,125
CURRENT LIABILITIES			
Trade payables	20	**19,087**	11,608
Other payables and accruals		**7,417**	4,359
Secured interest bearing bank borrowings, due within 1 year	21	**32,379**	81,407
Tax payables		**76,050**	62,301
		134,933	159,675
NET CURRENT ASSETS		**522,307**	263,450
TOTAL ASSETS LESS CURRENT LIABILITIES		**612,499**	351,189
NON-CURRENT LIABILITIES			
Secured interest bearing bank borrowings, due after 1 year	21	**180,000**	42,500
NET ASSETS		**432,499**	308,689
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	23	**7,675**	6,975
Reserves	25	**420,987**	298,226
Proposed final dividend	25	**3,837**	3,488
		432,499	308,689

Wong Chi Ming, Jeffry
Director

Yu Fei, Philip
Director

Consolidated Statement of Changes in Equity

Year ended 30 September 2007

	Notes	Share capital	Share premium	Statutory reserve *(Notes a)*	Proposed final dividend	Retained profits	Exchange reserve	Total
		HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 October 2005		6,500	32,240	–	3,250	204,445	–	246,435
Final dividend paid on 24 March 2006		–	–	–	(3,250)	(97)	–	(3,347)
Interim dividend paid on 16 August 2006		–	–	–	–	(2,054)	–	(2,054)
Issue of shares upon exercise of share options		475	10,045	–	–	–	–	10,520
Final dividend proposed		–	–	–	3,488	(3,488)	–	–
Net profit for the year		–	–	–	–	57,018	–	57,018
Exchange reserve		–	–	–	–	–	117	117
At 30 September 2006 and 1 October 2006		6,975	42,285	–	3,488	255,824	117	308,689
Final dividend paid on 30 March 2007		–	–	–	(3,488)	(130)	–	(3,618)
Interim dividend paid on 8 August 2007	*13*	–	–	–	–	(2,302)	–	(2,302)
Issue of shares upon exercise of share options	*23*	260	6,500	–	–	–	–	6,760
Issue of new shares	*23*	440	22,854	–	–	–	–	23,294
Final dividend proposed	*13*	–	–	–	3,837	(3,837)	–	–
Net profit for the year		–	–	–	–	97,174	–	97,174
Transfer to statutory reserve		–	–	792	–	(792)	–	–
Exchange reserve		–	–	–	–	–	2,502	2,502
At 30 September 2007		7,675	71,639	792	3,837	345,937	2,619	432,499

Notes:

(a) The statutory reserve of the Group refers to the PRC statutory reserve fund. Appropriations to such reserve fund are made out of profit after tax of the statutory financial statements of the PRC subsidiaries and the amount should not be less than 10% of the profit after tax unless the aggregate amount exceeded 50% of registered capital of the PRC subsidiaries. The statutory reserve fund can be used to make up prior years' losses of the PRC subsidiaries.

Consolidated Cash Flow Statement

Year ended 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES			
Net cash outflow from operations	26	**(22,065)**	(14,946)
Net cash outflow from operating activities		**(22,065)**	(14,946)
INVESTING ACTIVITIES			
Interest received		**1,369**	1,445
Proceeds from disposal of property, plant and equipment		**–**	70
Proceeds from disposal of subsidiaries		**–**	200
Purchases of property, plant and equipment		**(17,201)**	(9,058)
Net cash outflow from investing activities		**(15,832)**	(7,343)
FINANCING ACTIVITIES			
Interest paid		**(10,945)**	(9,276)
Increase in interest bearing bank loans, secured		**180,000**	85,000
Decrease in trust receipt loans, secured		**(6,487)**	(37,728)
Repayment of interest bearing bank loans, secured		**(85,000)**	(6,000)
Proceeds from issue of shares		**30,054**	10,520
Dividend paid		**(5,920)**	(5,401)
Net cash inflow from financing activities		**101,702**	37,115
NET INCREASE IN CASH AND CASH EQUIVALENTS		**63,805**	14,826
Effect of foreign exchange rates changes		**2,358**	130
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**83,385**	68,429
CASH AND CASH EQUIVALENTS AT END OF YEAR		**149,548**	83,385
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	19	**125,697**	61,074
Non-pledged time deposits with original maturity of less than 3 months when acquired	19	**23,851**	22,352
Bank overdrafts, secured	21	**–**	(41)
		149,548	83,385

Balance Sheet

At 30 September 2007

	Notes	2007 HK$'000	2006 HK$'000
NON-CURRENT ASSETS			
Investments in subsidiaries	16	**77,737**	77,737
CURRENT ASSETS			
Amounts due from subsidiaries	16	**237,123**	103,035
Cash and cash equivalents	19	**155**	2,100
		237,278	105,135
CURRENT LIABILITIES			
Amounts due to subsidiaries	16	**119,023**	28,735
Other payables and accruals		**1,752**	1,520
Secured interest bearing bank borrowings due within 1 year	21	**2,436**	–
		123,211	30,255
NET CURRENT ASSETS		**114,067**	74,880
TOTAL ASSETS LESS CURRENT LIABILITIES		**191,804**	152,617
EQUITY			
Share capital		**7,675**	6,975
Reserves	25	**180,292**	142,154
Proposed final dividend	25	**3,837**	3,488
		191,804	152,617

Wong Chi Ming, Jeffry
Director

Yu Fei, Philip
Director

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 address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. The principal place of business of the Company is located at Room 1825, 18th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

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 16 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. Application of New Revised Hong Kong Financial Reporting Standards

In the current year, the Group has applied, for the first time, a number of new standard, amendments and interpretations issued by the HKICPA, which are effective on 1 October 2006. The adoption of these new HKFRSs had no material effect on how the results for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

Financial guarantee contracts

In the current year, the Group has applied HKAS 39 "Financial Instruments: Recognition and Measurement" and HKFRS 4 (Amendments) "Financial Guarantee Contracts" which is effective for annual periods beginning on or after 1 January 2006.

A financial guarantee contract is defined by HKAS 39 "Financial Instruments: Recognition and Measurement" as "a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument."

2. Application of New Revised Hong Kong Financial Reporting Standards *(continued)*

Financial guarantee contracts *(continued)*

The Group acts as the issuer of the financial guarantee contracts

Prior to 1 October 2006, financial guarantee contracts were not accounted for in accordance with HKFRS 4 "Insurance Contract" and those contracts were disclosed as contingent liabilities. A provision for financial guarantee was only recognised when it was probable that an outflow of resources would be required to settle the financial guarantee obligation and the amount can be estimated reliably.

Upon the application of these amendments, a financial guarantee contract issued by the Group and not designated as at fair value through profit or loss is recognised initially at its fair value less transaction costs that are directly attributable to the issue of the financial guarantee contract. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Financial guarantee contracts granted to the subsidiaries by the Company

Prior to 1 October 2006, financial guarantee contracts granted by the Company to its subsidiaries' lenders were not recognised but disclosed as related party transactions and contingent liabilities.

Upon application of these amendments, financial guarantee contracts granted by the Company to its subsidiaries and not designated as fair value through profit or loss are recognised initially at its fair value. Subsequent to initial recognition, the Company measures the financial guarantee contract at the higher of (i) the amount determined in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

The Group has not early adopted the following HKFRSs that have been issued but are not yet effective. The directors of the Company are currently assessing the impact of these HKFRSs but are not yet in a position to state whether they would have material financial impact on the Group's financial statements.

2. Application of New Revised Hong Kong Financial Reporting Standards *(continued)*

HKAS 1 (Amendment)	"Presentation of Financial Statements" – Capital Disclosures[1]
HKAS 23 (Revised)	"Borrowing Costs"[5]
HKFRS 7	"Financial Instruments: Disclosures"[1]
HKFRS 8	"Operating Segments"[5]
HK(IFRIC) Interpretation 10	"Interim Financial Reporting and Impairment"[2]
HK(IFRIC) Interpretation 11	"HKFRS 2 - Group and Treasury Share Transactions"[3]
HK(IFRIC) Interpretation 12	"Service Concession Arrangements"[4]
HK(IFRIC) Interpretation 13	"Customer Loyalty Programmes"[6]
HK(IFRIC) Interpretation 14	"HKAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction"[4]

1 Effective for annual periods beginning on or after 1 January 2007
2 Effective for annual periods beginning on or after 1 November 2006
3 Effective for annual periods beginning on or after 1 March 2007
4 Effective for annual periods beginning on or after 1 January 2008
5 Effective for annual periods beginning on or after 1 January 2009
6 Effective for annual periods beginning on or after 1 July 2008

3. Significant Accounting Policies

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standard ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

Basis of presentation and consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 30 September 2007. 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.

3. Significant Accounting Policies *(continued)*

Basis of presentation and consolidation *(continued)*

All significant inter-company transactions and balances within the Group are eliminated on consolidation.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 dividend received and receivable.

3. Significant Accounting Policies *(continued)*

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) for 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) for interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

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 property, plant and equipment, 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 based on where the assets are located.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Such provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

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.

3. Significant Accounting Policies *(continued)*

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 October 2005 applies.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

(a) represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

(b) is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

3. Significant Accounting Policies *(continued)*

Goodwill *(continued)*

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of Statement of Standard Accounting Practice 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Employee benefits

(a) *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.

The employees of the PRC subsidiaries are members of the state-managed retirement benefit scheme operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

(b) *Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised 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 recognised until the time of leave.

3. Significant Accounting Policies *(continued)*

Employee benefits *(continued)*

(c) *Share option scheme*

The Group operates an equity-settled, share option scheme. The fair value of the employee services and suppliers of goods or services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

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.

3. Significant Accounting Policies *(continued)*

Impairment of assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss if recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

3. Significant Accounting Policies *(continued)*

Property, plant and equipment *(continued)*

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

Leasehold improvement	20%
Plant and machinery	15%
Furniture, fixtures and office equipment	15% – 20%
Motor vehicles	15%

The gains or losses on disposal or retirement of property, plant and equipment recognised in the income statement are the difference between the net sales proceeds and the carrying amount of the relevant assets.

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.

Deferred taxation

Deferred taxation 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 taxation 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 taxation 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.

3. Significant Accounting Policies *(continued)*

Deferred taxation *(continued)*

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

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's functional currency is United States dollars ("US$") while the consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the presentation currency of the Group and the Company.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

3. Significant Accounting Policies *(continued)*

Related parties

Parties are considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the Group:

(i) controls, is controlled by, or is under common control with, the entity;

(ii) has an interest in the entity that gives it significant influence over the entity;

(iii) has joint control over the entity;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family or any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

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 3 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.

3. Significant Accounting Policies *(continued)*

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 recognised 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.

Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incidental costs directly attributable to the equity transaction.

Financial risk management

The Group's activities expose it to various kinds of financial risks. These risks are minimised by the Group's financial management policies and practices described below. The Group does not use derivative financial instruments for speculative purposes.

The credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

Policies are established to regularly monitor current and expected liquidity requirements and its compliance with lending covenant, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the shorter and longer term.

As a result of operating the business internationally, there is exposure to foreign currency risk. The management ensures that the net exposure is kept to an acceptable level and will consider appropriate hedging measures, if needed.

4. Critical Accounting Estimates and Judgements

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

5. 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.

6. Segment Information

In accordance with the Group's internal financial reporting, segment information is presented by way of 2 segment formats: (a) on a primary segment reporting basis, by geographical segment; and (b) on a secondary segment reporting basis, by business segment.

The principal activities of the Group are the manufacture and sale of jewellery products, which are 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:

(a) United States;

(b) Europe; and

(c) Middle East and Asia.

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

6. Segment Information *(continued)*

(a) (i) 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 2007 and 2006.

	United States		Europe		Middle East and Asia		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**226,347**	221,252	**213,473**	189,591	**170,437**	69,529	**610,257**	480,372
Segment results	**27,554**	32,599	**35,273**	34,813	**76,298**	20,119	**139,125**	87,531
Unallocated revenue							**1,441**	2,147
Unallocated expenses							**(15,189)**	(11,111)
Profit from operating activities							**125,377**	78,567
Finance costs							**(10,945)**	(9,276)
Profit before tax							**114,432**	69,291
Tax							**(17,258)**	(12,273)
Net profit from ordinary activities attributable to shareholders							**97,174**	57,018
Segment assets	**221,624**	196,779	**209,019**	168,619	**166,880**	61,837	**597,523**	427,235
Unallocated assets	**-**	–	**-**	–	**-**	–	**149,909**	83,629
Total assets	**221,624**	196,779	**209,019**	168,619	**166,880**	61,837	**747,432**	510,864
Segment liabilities	**8,488**	6,242	**8,006**	5,349	**6,392**	1,961	**22,886**	13,552
Unallocated liabilities	**-**	–	**-**	–	**-**	–	**292,047**	188,623
Total liabilities	**8,488**	6,242	**8,006**	5,349	**6,392**	1,961	**314,933**	202,175
Other segment information:								
Depreciation	**5,545**	7,002	**5,229**	6,000	**4,175**	2,201	**14,949**	15,203
Capital expenditure	**6,380**	4,171	**6,017**	3,575	**4,804**	1,312	**17,201**	9,058

(ii) Geographical segments based on the location of assets

	Hong Kong		Macau		PRC		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**92,858**	65,077	**116**	17	**654,458**	445,770	**747,432**	510,864
Capital expenditure	**106**	552	**-**	–	**17,095**	8,506	**17,201**	9,058

Notes to the Financial Statements

Year ended 30 September 2007

6. Segment Information *(continued)*

(b) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information of the Group's business segments for the years ended 30 September 2007 and 2006.

	Exports		Domestic		Consolidated	
	2007	2006	**2007**	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**489,505**	459,930	**120,752**	20,442	**610,257**	480,372
Segments results	**94,958**	80,831	**44,167**	6,700	**139,125**	87,531
Unallocated revenue					**1,441**	2,147
Unallocated expenses					**(15,189)**	(11,111)
Profit from operating activities					**125,377**	78,567
Finance costs					**(10,945)**	(9,276)
Profit before tax					**114,432**	69,291
Tax					**(17,258)**	(12,273)
Net profit from ordinary activities attributable to shareholders					**97,174**	57,018
Segment assets	**345,418**	339,693	**252,105**	87,542	**597,523**	427,235
Unallocated assets	**–**	–	**–**	–	**149,909**	83,629
Total assets	**345,418**	339,693	**252,105**	87,542	**747,432**	510,864
Segment liabilities	**12,425**	13,056	**10,461**	496	**22,886**	13,552
Unallocated liabilities	**–**	–	**–**	–	**292,047**	188,623
Total liabilities	**12,425**	13,056	**10,461**	496	**314,933**	202,175
Other segment information:						
Depreciation	**12,392**	14,474	**2,557**	729	**14,949**	15,203
Capital expenditure	**106**	3,159	**17,095**	5,899	**17,201**	9,058

7. Other Revenue

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest income	**1,369**	1,445
Others	**72**	702
	1,441	2,147

8. Profit from Operating Activities

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

	Group	
	2007	2006
	HK$'000	*HK$'000*
Cost of inventories sold	**398,325**	342,687
Depreciation	**14,949**	15,203
Minimum lease payments under operating leases on leasehold land and buildings	**18,654**	2,928
Staff costs (excluding directors' remuneration-*note 9*):		
Wages and salaries	**13,534**	8,371
Retirement benefits scheme contributions	**340**	108
	13,874	8,479
Auditor's remuneration	**1,500**	1,200
Research and development costs	**–**	317
Interest income	**(1,369)**	(1,445)

9. Directors' Remuneration and 5 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:

	2007				2006
	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Mr. Wong Chi Ming, Jeffry*	–	845	–	845	801
Ms. Lui Ching Han, Magda (resigned on 3 April 2007)	–	–	–	–	780
Mr. Chung Yuk Lun*	–	600	12	612	581
Mr. Yu Fei, Philip	–	100	–	100	100
Mr. Lee Pak Chung	36	–	–	36	36
Mr. Chan Man Kiu	100	–	–	100	100
Mr. Tam Ping Kuen, Daniel	100	–	–	100	42
Mr. Chen Nien Chong	–	–	–	–	35
	236	1,545	12	1,793	2,475

* Also highest paid employees of the Group.

Fees include approximately HK$236,000 (2006: HK$213,000) 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 (2006: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2006: Nil).

During the year, no emoluments were paid by the Group to the directors or any of the 5 highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2006: Nil).

During the year, there were no options granted to the directors in respect of their services to the Group (2006: Nil).

9. Directors' Remuneration and 5 Highest Paid Employees *(continued)*

The 5 highest paid employees during the year included 2 (2006: 3) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining 3 (2006: 2) non-director, highest paid employees, whose remuneration fell within the Nil to HK$1,000,000 band, are as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,716**	1,046
Retirement benefits scheme contributions	**12**	–
	1,728	1,046

During the year, no (2006: Nil) share options were granted to the highest paid, non-director employees in respect of their services to the Group.

10. Finance Costs

	Group	
	2007	2006
	HK$'000	*HK$'000*
Interest on interest bearing bank overdrafts, trust receipt loans and other interest bearing bank loans wholly repayable within 5 years	**10,945**	9,276

11. Tax

The amount of tax charged to the consolidated income statement represents:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong profits tax	**–**	–
Overseas taxation	**17,258**	12,273
Tax charge for the year	**17,258**	12,273

(a) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong.

(b) Overseas taxation is related to Macau and PRC 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.

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	
	2007	2006
	HK$'000	*HK$'000*
Profit before tax	**114,432**	69,291
Tax at the statutory rate of 17.5%	**20,025**	12,126
Effect of different rates for companies operating in other jurisdictions	**(6,299)**	(1,119)
Expenses not deductible for tax	**8,722**	311
Income not subjected to tax	**(6,474)**	(798)
Unutilised tax losses	**1,284**	1,753
Tax charge at the Group's effective rate	**17,258**	12,273

No provision for deferred taxation has been made as the Group did not have any significant unprovided deferred taxation in respect of the year (2006: Nil).

12. 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$15,053,000 (2006: HK$7,631,000).

13. Dividends

During the year, an interim dividend of approximately HK$2,302,000 (2006: HK$2,054,000) was declared and paid on 8 August 2007.

At a meeting held on 11 January 2008, the directors proposed a final dividend of HK0.5 cent per share (2006: HK0.5 cent) for the year ended 30 September 2007 to be payable to shareholders whose names appear in the register of members of the Company on 28 March 2008. Subject to shareholders' approval at the forthcoming annual general meeting, such dividend will be payable on or about 18 April 2008. This proposed dividend was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ended 30 September 2007.

14. Earnings Per Share Attributable to Shareholders

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$97,174,000 (2006: HK$57,018,000) and the weighted average of 735,857,671 (2006: 669,495,890) ordinary shares in issue during the year.

No dilutive earnings per share is presented for the year ended 30 September 2007 as the Group did not have any potential dilutive ordinary shares outstanding.

The calculation of diluted earnings per share for the year ended 30 September 2006 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$57,018,000 and the weighted average number of 678,119,969 ordinary shares in issue during the year. The weighted average number of ordinary shares used to calculate the diluted earnings per share comprises the weighted average number of 669,495,890 ordinary shares in issue during the year and the weighted average number of 8,624,079 ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options.

15. Property, Plant and Equipment

Group

At 30 September 2007

	Leasehold improvement *HK$'000*	Plant and machinery *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:					
At 1 October 2006	5,666	126,941	1,380	1,056	135,043
Exchange translation	288	–	11	–	299
Additions	16,943	–	258	–	17,201
At 30 September 2007	**22,897**	**126,941**	**1,649**	**1,056**	**152,543**
Accumulated depreciation:					
At 1 October 2006	715	45,762	576	251	47,304
Exchange translation	96	–	2	–	98
Provided during the year	2,502	12,177	150	120	14,949
At 30 September 2007	**3,313**	**57,939**	**728**	**371**	**62,351**
Net book value:					
At 30 September 2007	**19,584**	**69,002**	**921**	**685**	**90,192**

15. Property, Plant and Equipment *(continued)*

Group

Reconciliation of opening balance:

At 30 September 2006

	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
At 1 October 2005	–	124,380	3,291	997	128,668
Additions	5,666	2,561	323	508	9,058
Disposals	–	–	(2,234)	(449)	(2,683)
At 30 September 2006	5,666	126,941	1,380	1,056	135,043
Accumulated depreciation:					
At 1 October 2005	–	31,624	1,929	419	33,972
Exchange translation	12	–	1	–	13
Provided during the year	703	14,138	220	142	15,203
Disposals	–	–	(1,574)	(310)	(1,884)
At 30 September 2006	715	45,762	576	251	47,304
Net book value:					
At 30 September 2006	4,951	81,179	804	805	87,739

16. Investments in Subsidiaries

	Company	
	2007 ***HK$'000***	2006 *HK$'000*
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.

16. 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%	Dormant
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%	Dormant#
On Line Jewellery Manufacturer Company Limited	Hong Kong	Ordinary HK$1,000,000	100%	Dormant
Master Will Limited	Hong Kong	Ordinary HK$2	100%	Provision of administrative services
On Line Pacific Services Limited	BVI	Ordinary US$1,000	100%	Dormant
Pacific Worldwide Marketing Services Limited	BVI/United States, Europe, Middle East and South East Asia	Ordinary US$1,000	100%	Dormant#
佛山市順德區即達珠寶金行有限公司	PRC	HK$2,000,000**	100%	Processing of jewellery products
Maxbonus Investments Limited	Hong Kong/PRC	Ordinary HK$1	100%	Investment holding
Ascent Hill Investments Limited	Hong Kong	Ordinary HK$1	100%	Investment holding
Bolton Limited	Hong Kong	Ordinary HK$1	100%	Investment holding
Joymart Enterprises Limited	BVI	Ordinary US$1,000	100%	Trading of jewellery products
Megaprofit Enterprises Limited	BVI	Ordinary US$1,000	100%	Trading of jewellery products
莎梵蒂珠寶貿易（上海）有限公司	PRC	US$140,000^^	100%	Retailing of jewellery products
東莞即達珠寶首飾有限公司	PRC	HK$10,000,000***	100%	Manufacture and sale of jewellery products

Notes to the Financial Statements

Year ended 30 September 2007

16. Investments in Subsidiaries *(Continued)*

* 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 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.

*** 東莞即達珠寶首飾有限公司 is a wholly foreign-owned enterprise established in PRC for an operating period of 15 years commencing from its date of establishment on 25 October 2006. The registered capital of 東莞即達珠寶首飾有限公司 of HK$10,000,000 has been fully paid up by the Group.

^^ 莎梵蒂珠寶貿易（上海）有限公司 is a wholly foreign-owned enterprise established in PRC for an operating period of 20 years commencing from its date of establishment on 22 May 2006. The registered capital of 莎梵蒂珠寶貿易（上海）有限公司 of US$140,000 has been fully paid up by the Group.

\# These two companies have been struck off from the BVI Government Register with effect from 1 November 2007.

17. Inventories

	Group	
	2007	2006
	HK$'000	*HK$'000*
Raw materials	**85,566**	81,554
Finished goods	**274,785**	133,096
	360,351	214,650

18. 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	
	2007	2006
	HK$'000	*HK$'000*
1 – 30 days	**49,242**	42,415
31 – 60 days	**44,886**	44,770
61 – 90 days	**39,930**	27,505
	134,058	114,690

19. Cash and Cash Equivalents

	Group		Company	
	2007	2006	**2007**	2006
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**125,697**	61,074	**155**	2,100
Non-pledged time deposits	**23,851**	22,352	**–**	–
Cash and cash equivalents	**149,548**	83,426	**155**	2,100

The effective interest rate on non-pledged time deposits was 2.34% (2006: 1.71%) per annum and the deposit had maturity of 3 months (2006: 1 month).

20. Trade Payables

The Group normally obtains credit terms ranging from 30 to 120 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	
	2007	2006
	HK$'000	*HK$'000*
1 – 30 days	**13,945**	9,230
31 – 60 days	**536**	774
61 – 90 days	**314**	1,477
91 – 180 days	**1,734**	127
181 – 360 days	**2,558**	–
	19,087	11,608

21. Secured Interest Bearing Bank Borrowings

		Group		Company	
		2007	2006	**2007**	2006
	Notes	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Bank overdrafts, secured	*22*	**–**	41	**–**	–
Trust receipt loans, secured	*22*	**32,379**	38,866	**2,436**	–
Bank loans, secured	*22*	**180,000**	85,000	**–**	–
		212,379	123,907	**2,436**	–
Secured interest bearing bank borrowings are repayable as follows:					
Within 1 year		**32,379**	81,407	**2,436**	–
In the 2nd year		**180,000**	42,500	**–**	–
		212,379	123,907	**2,436**	–
Portion classified as current liabilities		**(32,379)**	(81,407)	**(2,436)**	–
Non-current portion		**180,000**	42,500	**–**	–

On 25 July 2007, the Group has entered into a loan refinancing agreement with a syndicate of banks for a term loan of HK$180 million which will be repaid in 5 successive quarterly instalments after 2 years from the utilisation date. The term loan bears interest at floating interest rate of Hong Kong Interbank Offered Rate (HIBOR) plus 1.3% per annum.

All trust receipt loans and overdraft bear interest at floating interest rate.

All secured interest bearing bank borrowings were denominated in Hong Kong dollars. The effective annual interest rates of the Group's bank borrowings for the year 2007 ranges from 5.40% to 9.50% (2006: 5.84% to 7.75%).

22. Banking Facilities

As at 30 September 2007, the Group's banking facilities were secured by the corporate guarantees of the Company and certain subsidiaries of the Company.

23. Share Capital

	Notes	Number of shares '000	Nominal value HK$'000
Authorised ordinary shares of HK$0.01 each			
At 30 September 2006 and 30 September 2007		2,000,000	20,000
Issued and fully paid ordinary shares of HK$0.01 each			
At 30 September 2006		697,500	6,975
Issue of shares upon exercise of share options	*23(a) and 24*	26,000	260
Issue of new shares	*23(b)*	43,950	440
At 30 September 2007		767,450	7,675

Notes:

(a) On 21 February 2007 and 27 February 2007, a total of 26,000,000 share options were exercised to subscribe for 26,000,000 ordinary shares of HK$0.01 each in the Company for a total consideration of HK$6,760,000 of which HK$260,000 was credited to share capital and the balance of HK$6,500,000 was credited to the share premium account.

(b) On 13 March 2007, Equity Base Holdings Limited ("Equity Base"), the ultimate holding company entered into the placing agreement with a placing agent and the subscription agreement with the Company respectively. Equity Base agreed to place, through the placing agent, 43,950,000 existing shares to four placees who are independent third parties to the Company at a price of HK$0.53 per ordinary share.

Pursuant to the subsription agreement, Equity Base conditionally agreed to subscribe for 43,950,000 new shares of HK$0.01 each at a price of HK$0.53 per share. The subscription price of the new shares of HK$0.53 per share, being equivalent to the placing price, was determined after arm's length negotiation between Equity Base and the Company with reference to the placing price. This results in increasing the share premium account to HK$22,854,000.

24. Share Options

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

Salient details of the Scheme are:

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

(b) The exercise period of the share options granted is determinable by the directors, and commences after a certain vesting period and ends on a date which is not later than 10 years from the date of the grant of the share options or the expiry date of the Scheme, whichever is the earlier;

(c) The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 by the grantee; and

(d) The exercise price of the share options is determinable by the directors but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of the offer of grant, which must be a trading day; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.

There were no outstanding share options as at 30 September 2007.

24. Share Options *(Continued)*

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

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

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

No share options were granted or cancelled during the year. There were no outstanding share options as of 30 September 2007. The Company did not disclose the value of such share options, since the Company considered that valuation of such share options would be subject to a number of assumptions that would be subjective and uncertain and might not be meaningful.

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

25. 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

	Notes	Share premium HK$'000	Proposed final dividend HK$'000	Retained profits HK$'000	Total HK$'000
At 30 September 2005 and 1 October 2005		109,777	3,250	20,340	133,367
Final dividend paid on 24 March 2006		–	(3,250)	(97)	(3,347)
Interim dividend paid on 16 August 2006		–	–	(2,054)	(2,054)
Issue of shares upon exercise of share options		10,045	–	–	10,045
Final dividend proposed		–	3,488	(3,488)	–
Net profit for the year	*12*	–	–	7,631	7,631
At 30 September 2006 and 1 October 2006		119,822	3,488	22,332	145,642
Final dividend paid on 30 March 2007		–	(3,488)	(130)	(3,618)
Interim dividend paid on 8 August 2007		–	–	(2,302)	(2,302)
Issue of shares upon exercise of share options	*23*	6,500	–	–	6,500
Issue of new shares	*23*	22,854	–	–	22,854
Final dividend proposed		–	3,837	(3,837)	–
Net profit for the year	*12*	–	–	15,053	15,053
At 30 September 2007		**149,176**	**3,837**	**31,116**	**184,129**

25. Reserves *(Continued)*

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 2007, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK$184,129,000 (2006: HK$145,642,000) of which HK$3,837,000 (2006: HK$3,488,000) 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 subs idiaries acquired pursuant to the group reorganisation on 12 August 2002 over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the new issue; (iii) the premium arising from the capitalisation issue; and (iv) the premium arising from issue of shares upon exercise of share options scheme.

(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 reorganisation on 12 August 2002 over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the new issue; (iii) the premium arising from the capitalisation issue; and (iv) the premium arising from issue of shares upon exercise of share options scheme.

26. Notes to the Consolidated Cash Flow Statement

Reconciliation of profit from operating activities to net cash outflow from operations

	2007	2006
	HK$'000	*HK$'000*
Profit from operating activities	**125,377**	78,567
Interest income	**(1,369)**	(1,445)
Depreciation	**14,949**	15,203
Loss on disposal of property, plant and equipment	**–**	35
Gain on disposal of subsidiaries	**–**	(80)
Increase in prepayments, deposits and other receivables	**(2,924)**	(3,396)
Increase in inventories	**(145,701)**	(90,178)
Increase in trade receivables	**(19,368)**	(9,918)
Increase/(decrease) in trade payables	**7,479**	(4,973)
Increase in other payables and accruals	**3,058**	1,329
Tax paid	**(3,566)**	(90)
Net cash outflow from operations	**(22,065)**	(14,946)

27. Related Party Transactions

Apart from the remuneration paid to the directors of the Company (being the key management personnel) as disclosed in note 9, there were no other significant related party transactions entered into by the Group.

28. Contingent Liabilities

The Group did not have any significant contingent liabilities at the balance sheet date (2006: Nil).

The Company has given guarantees in favour of certain banks to the extent of approximately HK$411,900,000 (2006: HK$245,100,000) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2007, the banking facilities utilised by these subsidiaries amounted to approximately HK$212,379,000 (2006: HK$123,907,000).

29. 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 2007, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2007	2006
	HK$'000	*HK$'000*
Within 1 year	**16,086**	1,935
In 2 to 5 years, inclusive	**327**	1,108
	16,413	3,043

The Company did not have any operating lease arrangements as at 30 September 2007 (2006: Nil).

30. Capital Commitments

As at 30 September 2007, the Group and the Company had no significant capital commitments (2006: Nil).

31. Comparative Figures

Certain comparative figures have been reclassified to conform with current year's presentation.

32. Ultimate Holding Company

The directors of the Company consider that the ultimate holding company of the Company as at 30 September 2007 was Equity Base Holdings Limited, which was incorporated in the British Virgin Islands.

33. Approval of the Financial Statements

The financial statements were approved and authorised for issue by the Board of Directors on 11 January 2008.