



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)

*Interim Report 2010*



The board ("Board") of directors ("Directors") of Ming Fung Jewellery Group Limited ("Company") is pleased to announce the unaudited condensed consolidated financial statements of the Company and its subsidiaries (collectively, the "Group") for the six months ended 31 March 2010, which have been reviewed by the Company's audit committee.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		<b>For the six months ended 31 March</b>	
		<b>2010</b>	2009
		<b>(Unaudited)</b>	(Unaudited)
	<i>Notes</i>	<b>HK\$'000</b>	<i>HK\$'000</i>
Turnover	3	<b>344,507</b>	342,063
Cost of sales		<b>(248,202)</b>	(222,414)
Gross profit		<b>96,305</b>	119,649
Other revenue	3	<b>340</b>	533
Selling and distribution expenses		<b>(26,530)</b>	(63,281)
Administrative expenses		<b>(14,018)</b>	(12,617)
Profit from operating activities	5	<b>56,097</b>	44,284
Finance costs	6	<b>(2,094)</b>	(4,559)
Profit before tax		<b>54,003</b>	39,725
Tax	7	<b>(12,972)</b>	(7,204)
Profit for the period		<b>41,031</b>	32,521
Other comprehensive income:			
Exchange difference arising on translation of foreign operations		<b>237</b>	153
Total comprehensive income for the period		<b>41,268</b>	32,674
Profit for the period attributable to:			
Equity holders of the Company		<b>41,235</b>	32,521
Non-controlling interests		<b>(204)</b>	-
		<b>41,031</b>	32,521
Total comprehensive income for the period attributable to:			
Equity holders of the Company		<b>41,801</b>	32,674
Non-controlling interests		<b>(533)</b>	-
		<b>41,268</b>	32,674
Earnings per share attributable to the equity holders of the Company	9		
Basic		<b>HK4.0 cents</b>	HK4.2 cents
Diluted		<b>HK3.9 cents</b>	HK4.2 cents

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		<b>31 March 2010 (Unaudited) HK\$'000</b>	30 September 2009 (Audited) HK\$'000
	<i>Notes</i>		
Non-current Assets			
Intangible assets	10	<b>316,807</b>	–
Exploration and evaluation assets	11	<b>99,861</b>	–
Property, plant and equipment		<b>53,746</b>	60,284
		<b>470,414</b>	60,284
Current Assets			
Inventories		<b>544,430</b>	494,570
Trade receivables	12	<b>189,142</b>	194,293
Prepayments, deposits and other receivables		<b>28,850</b>	27,186
Cash and cash equivalents		<b>192,047</b>	211,144
		<b>954,469</b>	927,193
Current Liabilities			
Trade payables	13	<b>8,241</b>	10,177
Other payables and accruals		<b>4,327</b>	6,369
Secured interest bearing bank borrowings		<b>140,652</b>	214,890
Tax payables		<b>77,945</b>	77,274
		<b>231,165</b>	308,710
Net Current Assets		<b>723,304</b>	618,483
Net Assets		<b>1,193,718</b>	678,767
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	14	<b>14,857</b>	9,578
Reserves		<b>1,032,727</b>	669,189
		<b>1,047,584</b>	678,767
Non-controlling interests		<b>146,134</b>	–
		<b>1,193,718</b>	678,767

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Unaudited)	Share premium (Unaudited)	Proposed dividend (Unaudited)	Retained earnings (Unaudited)	Exchange reserve (Unaudited)	Share-based payment reserve (Unaudited)	Warrants reserve (Unaudited)	Statutory reserve (Unaudited) <i>(Note a)</i>	Non-controlling interests (Unaudited)	Total (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2009	9,578	175,251	-	438,926	10,010	43,482	728	792	-	678,767
Total comprehensive income for the period	-	-	-	41,235	566	-	-	-	(533)	41,268
Issue of shares upon exercise of share options	668	33,706	-	-	-	(11,858)	-	-	-	22,516
Issue of shares on acquisition of a subsidiary	1,000	79,000	-	-	-	-	-	-	-	80,000
Issue of shares upon exercise of warrants	1,500	33,728	-	-	-	-	(728)	-	-	34,500
Issue of shares upon conversion of convertible notes	2,111	187,889	-	-	-	-	-	-	-	190,000
Acquisition of subsidiaries	-	-	-	-	-	-	-	-	146,667	146,667
At 31 March 2010	<u>14,857</u>	<u>509,574</u>	<u>-</u>	<u>480,161</u>	<u>10,576</u>	<u>31,624</u>	<u>-</u>	<u>792</u>	<u>146,134</u>	<u>1,193,718</u>
	Share capital (Unaudited)	Share premium (Unaudited)	Proposed dividend (Unaudited)	Retained earnings (Unaudited)	Exchange reserve (Unaudited)	Share-based payment reserve (Unaudited)	Warrants reserve (Unaudited)	Statutory reserve (Unaudited) <i>(Note a)</i>	Non-controlling interests (Unaudited)	Total (Unaudited)
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2008	7,675	71,639	3,837	425,085	9,306	-	-	792	-	518,334
Total comprehensive income for the period	-	-	-	32,521	153	-	-	-	-	32,674
Recognition of equity-settled share-based payment	-	-	-	-	-	4,889	-	-	-	4,889
At 31 March 2009	<u>7,675</u>	<u>71,639</u>	<u>3,837</u>	<u>457,606</u>	<u>9,459</u>	<u>4,889</u>	<u>-</u>	<u>792</u>	<u>-</u>	<u>555,897</u>

*Note:*

- (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.

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	For the six months ended 31 March	
	2010 (Unaudited) HK\$'000	2009 (Unaudited) HK\$'000
<b>Net cash generated from/(used in):</b>		
Operating activities	3,507	(60,570)
Investing activities	(889)	(10,222)
Financing activities	(19,316)	(4,558)
	<hr/>	<hr/>
<b>Decrease in cash and cash equivalents</b>	<b>(16,698)</b>	<b>(75,350)</b>
<b>Effect of foreign exchange rates changes</b>	<b>217</b>	<b>37</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>208,528</b>	<b>167,555</b>
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period</b>	<b>192,047</b>	<b>92,242</b>
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<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	169,426	71,791
Non-pledged time deposits with original maturity of less than 3 months when acquired	26,207	26,047
Bank overdrafts, secured	(3,586)	(5,596)
	<hr/>	<hr/>
	<b>192,047</b>	<b>92,242</b>
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## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). These condensed consolidated financial statements are unaudited but have been reviewed by the Company's audit committee.

These condensed consolidated financial statements have been prepared under the historical cost convention. The accounting policies and basis of presentation used in the preparation of these condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's audited consolidated financial statements for the year ended 30 September 2009.

### 2. PRINCIPAL ACCOUNTING POLICIES

In the Period, the Group had adopted certain new Hong Kong Financial Reporting Standards ("HKFRS"), amendments and interpretations (collectively the "New HKFRSs"), issued by HKICPA that are effective for accounting periods beginning on or after 1 October 2009.

The adoption of the New HKFRSs has had no material effect on how the results and financial position for the current or prior periods are prepared and presented.

Except as described below, the same accounting policies, presentation and methods of computation have been followed in these condensed consolidated financial statements as were applied in the preparation of Group's consolidated financial statements for the period ended 30 September 2009.

#### HKAS 1 (Revised) – Presentation of Financial Statements

HKAS 1 (Revised) has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

#### HKFRS 8 – Operating Segments

HKFRS 8 replaces HKAS 14, 'Segment reporting', it requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker.

The Group has not early applied the HKFRSs that have been issued but are not yet effective. The Directors anticipate that the application of those HKFRSs will have no material impact on the financial statements of the Group.

### 3. TURNOVER AND OTHER REVENUE

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 period.

An analysis of turnover, other revenue and gains is as follows:

	<b>For the six months ended 31 March</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Turnover – sale of goods	<b>344,507</b>	342,063
Other revenue		
Interest income	<b>340</b>	533
	<b>344,847</b>	342,596

### 4. SEGMENT INFORMATION

HKFRS 8 “Operating Segments” replaces HKAS 14 “Segment Reporting” with effect from 1 January 2009. HKFRS 8 is a disclosure standard that requires that disclosure of information about the Group’s operating segments. It replaces the requirements under HKAS 14 to determine the primary (business) and secondary (geographical) reporting operating segments of the Group. Adoption of this standard did not have any effect on the Group’s results of operations or financial position. The Group has determined that the operating segments are substantially the same as the business segments previously identified under HKAS 14.

The Group’s operating segments are structured and managed separately according to the nature of their operations and the products they provided. Each of the Group’s operating segments represents a strategic business unit that offers products which are subject to risks and returns that are different from those of the other operating segments. Summary details of the operating segments are as follows:

- (a) Exports segment is export of manufactured jewellery products on ODM or OEM basis;
- (b) Domestic segment is manufacture and trading of jewellery products for the Group’s retail and wholesale business in Mainland China; and
- (c) Mining segment comprised the mining, exploration and sale of gold resources.

#### 4. SEGMENT INFORMATION (CONTINUED)

##### Operating segments

The following table presents revenue and results for the Group's operating segments:

*For the six months ended 31 March 2010:*

	Exports (Unaudited) HK\$'000	Domestic (Unaudited) HK\$'000	Mining (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	<u>127,192</u>	<u>217,315</u>	<u>-</u>	<u>344,507</u>
Segment results	<u>4,820</u>	<u>61,771</u>	<u>(1,020)</u>	<u>65,571</u>
Unallocated revenue				340
Unallocated expenses				<u>(9,814)</u>
Profit from operating activities				<u>56,097</u>
Finance costs				<u>(2,094)</u>
Profit before tax				<u>54,003</u>
Tax				<u>(12,972)</u>
Profit for the period				<u>41,031</u>

*For the six months ended 31 March 2009:*

	Exports (Unaudited) HK\$'000	Domestic (Unaudited) HK\$'000	Mining (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	<u>154,012</u>	<u>188,051</u>	<u>-</u>	<u>342,063</u>
Segment results	<u>6,962</u>	<u>45,498</u>	<u>-</u>	<u>52,460</u>
Unallocated revenue				533
Unallocated expenses				<u>(8,709)</u>
Profit from operating activities				<u>44,284</u>
Finance costs				<u>(4,559)</u>
Profit before tax				<u>39,725</u>
Tax				<u>(7,204)</u>
Profit for the period				<u>32,521</u>



**5. PROFIT FROM OPERATING ACTIVITIES**

The Group's profit from operating activities is arrived at after charging:

	<b>For the six months ended 31 March</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Cost of inventories sold	<b>248,202</b>	222,414
Depreciation	<b>4,873</b>	6,692
Share-based payments	<b>-</b>	4,889
	<b><u>253,075</u></b>	<b><u>233,995</u></b>

**6. FINANCE COSTS**

	<b>For the six months ended 31 March</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Interest on interest bearing bank overdrafts, trust receipt loans and other interest bearing bank loans wholly repayable within 5 years	<b>2,094</b>	4,559
	<b><u>2,094</u></b>	<b><u>4,559</u></b>

**7. TAX**

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

	<b>For the six months ended 31 March</b>	
	<b>2010</b>	2009
	<b>(Unaudited)</b>	(Unaudited)
	<b>HK\$'000</b>	HK\$'000
Current period provision:		
Hong Kong profits tax	-	-
Overseas taxation	<b>12,972</b>	7,204
	<b><u>12,972</u></b>	<b><u>7,204</u></b>
Tax charge for the period	<b><u>12,972</u></b>	<b><u>7,204</u></b>

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

## 7. TAX (CONTINUED)

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

	<b>For the six months ended 31 March 2010 (Unaudited) HK\$'000</b>	2009 (Unaudited) HK\$'000
Profit before tax	<b>54,003</b>	39,725
Tax at the statutory rate of 16.5% (2009: 16.5%)	<b>8,910</b>	6,554
Effect of different tax rates for companies operating in other jurisdictions	<b>3,506</b>	682
Income not subjected to tax	<b>(265)</b>	(606)
Expenses not deductible for tax	<b>317</b>	116
Unutilised tax losses	<b>504</b>	458
	<b>12,972</b>	7,204

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred taxation in respect of the period (for the six months ended 31 March 2009: Nil).

## 8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (for the six months ended 31 March 2009: Nil).

## 9. EARNINGS PER SHARE ATTRIBUTABLE TO THE EQUITY HOLDERS OF THE COMPANY

The calculation of basic earnings per share is based on the Group's unaudited profit for the period of approximately HK\$41,235,000 (for the six months ended 31 March 2009: HK\$32,521,000) and the weighted average of 1,028,805,210 (for the six months ended 31 March 2009: 767,450,000) ordinary shares in issue during the period.

The calculation of diluted earnings per share is based on the Group's unaudited profit for the period of approximately HK\$41,235,000 (for the six months ended 31 March 2009: HK\$32,521,000) and the weighted average number of 1,070,969,362 (for the six months ended 31 March 2009: 780,497,423) ordinary shares in issue during the period. The weighted average number of ordinary shares used to calculate the diluted earnings per share comprises the weighted average number of 1,028,805,210 (for the six months ended 31 March 2009: 767,450,000) ordinary shares in issue during the period and the weighted average number of 42,164,152 (for the six months ended 31 March 2009: 13,047,423) ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options.

## 10. INTANGIBLE ASSETS

	<i>HK\$'000</i>
<b>Cost</b>	
As at 1 October 2009	–
Acquisition from subsidiaries (note 17b)	316,807
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At 31 March 2010	316,807
	<hr/> <hr/>
<b>Net book value</b>	
At 31 March 2010 (unaudited)	316,807
	<hr/> <hr/>
At 30 September 2009	–
	<hr/> <hr/>
(a) Intangible asset represents the gold mining license held by the Group.	
(b) The gold mining license is stated at cost less impairment losses.	

## 11. EXPLORATION AND EVALUATION ASSETS

	<b>Exploration license (Unaudited)</b> <i>HK\$'000</i>
At 1 October 2009	–
Arising from acquisition of subsidiaries (note 17a)	99,861
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At 31 March 2010	99,861
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## 12. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days.

An aging analysis of the trade receivables for the period end, based on the date of recognition of the sale, is as follows:

	<b>31 March 2010 (Unaudited)</b> <i>HK\$'000</i>	30 September 2009 (Audited) <i>HK\$'000</i>
1 – 30 days	62,832	73,148
31 – 60 days	51,374	62,853
61 – 90 days	43,165	38,748
91 – 120 days	31,771	19,544
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	<b>189,142</b>	194,293
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### 13. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 120 days from its suppliers.

An aging analysis of the trade payables for the period end, based on the date of receipt of goods purchased, is as follows:

	<b>31 March 2010 (Unaudited) HK\$'000</b>	30 September 2009 (Audited) HK\$'000
1 – 30 days	<b>6,434</b>	9,703
31 – 60 days	<b>1,044</b>	186
61 – 90 days	<b>763</b>	282
91 – 180 days	–	6
	<b>8,241</b>	10,177

### 14. SHARE CAPITAL

	<b>Number of shares '000</b>	<b>Nominal Value HK\$'000</b>
Authorised ordinary shares of HK\$0.01 each At 30 September 2009 (Audited) and 31 March 2010 (Unaudited)	2,000,000	20,000
Issued and fully paid:		
At 30 September 2009 (Audited)	957,750	9,578
Issue of new shares (Notes i)	100,000	1,000
Conversion of convertible notes (Notes ii)	211,111	2,111
Exercise of share options (Notes iii)	66,825	668
Exercise of warrants (Notes iv)	150,000	1,500
<b>At 31 March 2010 (Unaudited)</b>	<b>1,485,686</b>	<b>14,857</b>

Notes:

- (i) On 12 February 2010, the Company issued of 100,000,000 consideration shares in the principal of HK\$80.0 million to Pretty Sweet Limited ("Pretty Sweet") for acquisition of 80% of the issued share capital of Super Charm Holdings Limited ("Super Charm").
- (ii) On 22 March 2010, the Company issued convertible notes in the principal amount of HK\$190.0 million ("convertible notes") to Prime Fortune Company Limited ("Prime Fortune") for acquisition of the entire issued share capital of Gold Fortune Company Limited ("Gold Fortune"). The convertible notes will be due on 21 September 2011 with interest-bearing at 3% per annum. Prime Fortune has the right to convert the whole of the principal amount of the convertible notes into shares of HK\$0.01 each in the share capital of the Company, at the conversion price of HK\$0.90.  
  
During the period ended 31 March 2010, a total of 211,111,111 ordinary shares have been fully allotted and duly issued and there is no aggregate outstanding principal of the convertible notes. These shares issued rank *pari passu* in all respects with the existing shares.
- (iii) During the period, part of the share options granted were exercised for 66,825,000 shares at exercise price of HK\$0.1634, HK\$0.435 and HK\$0.630 respectively which raised gross proceeds of HK\$22.5 million.
- (iv) During the period, the subscription rights attaching to 150,000,000 warrants were exercised at the subscription price of HK\$0.23 per share, resulting in the issue of 150,000,000 ordinary shares of HK\$0.01 each for a total cash consideration of approximately HK\$34.5 million.

## 15. CONTINGENT LIABILITIES

As at 31 March 2010, the Company had executed corporate guarantees to banks for banking facilities granted to certain subsidiaries of the Company. These banking facilities have been utilized to the extent of approximately HK\$140.7 million as at 31 March 2010 (30 September 2009: HK\$214.9 million).

## 16. OPERATING LEASE ARRANGEMENTS

As at 31 March 2010, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	<b>31 March 2010 (Unaudited) HK\$'000</b>	30 September 2009 (Audited) HK\$'000
Within 1 year	<b>1,062</b>	1,664
In 2 to 5 years, inclusive	-	354
	<b><u>1,062</u></b>	<b><u>2,018</u></b>

## 17. ACQUISITION OF SUBSIDIARIES

- (a) On 10 June 2009, the Group entered into Chi Zhou Share Purchase Agreement (the "Agreement") with an independent third party, Pretty Sweet, for the acquisition of 80% of the entire interest in Super Charm at a consideration of HK\$80.0 million. Super Charm owns 100% indirect interest in Chi Zhou Donghai Mining Development Company Limited ("Chi Zhou Donghai") and Chi Zhou Donghai is the holder of the exploration license located in Chi Zhou City of An Hui Province. The completion date of the Agreement was 12 February 2010, which is also the acquisition date for accounting purpose.

Of the total consideration of HK\$80.0 million was satisfied by the issue of 100,000,000 new ordinary shares at an issue price of HK\$0.80 each in the share capital of the Company ("Consideration Shares"). Super Charm is an investment holding company incorporated in the British Virgin Islands and owns a 100% indirect interest in Chi Zhou Donghai.

Details of the fair value of net assets acquired in respect of the acquisition are as follows:

Net assets acquired

	<i>HK\$'000</i>
Cash and cash equivalents	72
Exploration license (note 11)	99,861
Other receivables, deposits and prepayments	764
Other payables and accrued expenses	(697)
	<u>100,000</u>
Net assets	100,000
Less: Non-controlling interests	(20,000)
	<u>80,000</u>
	<b><u>80,000</u></b>
Satisfied by	
Issuance of Consideration Shares	80,000
	<b><u>80,000</u></b>

## 17. ACQUISITION OF SUBSIDIARIES (CONTINUED)

- (b) On 20 August 2009, the Group entered into Chi Feng Share Purchase Agreement (“the Agreement”) with an independent third party, Prime Fortune, for the acquisition of entire interest in Gold Fortune at a consideration of HK\$190.0 million. Gold Fortune owns 60% indirect interest in Chi Feng Guo Jin Mining Company Limited (赤峰國金礦業有限公司) (“Chi Feng”) and it is the holder of the gold mining license located in Chi Feng City of Inner Mongolia Autonomous Region. The completion date of the Agreement was 22 March 2010, which is also the acquisition date for accounting purpose.

Of the total consideration of HK\$190.0 million was satisfied by the issue of convertible notes of the Company. Gold Fortune is an investment holding company incorporated under the laws of Anguilla and owns a 60% indirect interest in Chi Feng.

Details of the fair value of net assets acquired in respect of the acquisition are as follows:

Net assets acquired

	<i>HK\$'000</i>
Cash and cash equivalents	10
Gold mining license (note 10)	316,807
Accounts receivables	1,407
Other receivables, deposits and prepayments	342
Accounts payable	(443)
Other payables and accrued expenses	(1,456)
	<hr/>
Net assets	316,667
Less: Non-controlling interests	(126,667)
	<hr/>
	190,000
	<hr/> <hr/>
Satisfied by	
Issuance of convertible notes	190,000
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## 18. EVENTS AFTER THE REPORTING PERIOD

On 14 April 2010, the Company has entered into a placing agreement with Kingston Securities Limited to place 297,000,000 shares at the subscription price of HK\$0.67 per share and the placing has been completed on 23 April 2010.

## MANAGEMENT DISCUSSION AND ANALYSIS

### Business Review

For the period, the Group's turnover was approximately HK\$344.5 million, representing an increase of about 0.7% as compared to approximately HK\$342.1 million for the six months ended 31 March 2009. Due to a slow recovery pace in United States and credit crunch in Europe, export sales had moderate dropped compared with the same period of last year while domestic sales reaching another record high contributed more to the overall turnover. As a result, turnover increased by about 0.7%.

Since more products were placed for sales in the outlets of the retail chain partner, which helped to lower the cost, the selling and distribution expenses significantly decreased 58.1% to approximately HK\$26.5 million as compared to HK\$63.3 million for the six months ended 31 March 2009. Accordingly, the Group's operating margin was increased to 16.3%, representing about 26.4% increase when compare to the same period of last year.

The Group's administrative expenses for the period was fairly stable at approximately HK\$14.0 million when compared to HK\$12.6 million for the six months ended 31 March 2009.

Products manufactured were sold to major markets in United States, Europe, Middle East and Asia. When compared to the results in the same previous financial period, the Group suffered a 5.6% decline in the sales to United States, and a 31.0% decline in the sales to Europe, while achieved higher growths in the sales to domestic and Middle East markets which attained HK\$244.7 million, representing a substantial increase of 12.6% when compared to HK\$217.3 million for the same period in 2009.

In the first half of the financial year, the Group continued its efforts to focus on the domestic jewellery markets in PRC while further reduced its reliance on the export market. The increase in domestic sales was attributed to the increase in demand of luxury goods which included jewellery products in domestic market and the co-operation with retail chain partner in Southern China. During the period under review, domestic sales revenue in PRC contributed 63.1% of the Group's turnover and 94.2% of the Group's operating profits.

During the period, the Group has successfully vertical diversify into the upstream industry of gold minerals exploration and exploitation. On 12 February 2010, the Group has completed the acquisition of 80% interests in the gold mines located in Chi Zhou City, in the provinces of Anhui Province, PRC. Also, on 22 March 2010, the Group has completed the acquisition of 60% interest in the gold mines located in Chi Feng City, Inner Mongolia Autonomous Region, PRC. As more time is needed to put the gold mine into the production, no turnover was recorded during the period under review.

## **FUTURE PLANS AND PROSPECTS**

With PRC's growing domestic consumption and sound economic fundamentals, the Group believes the jewellery retail business in PRC would continue to be a blooming and prosperous market. The Group will continue its co-operation with retail chain partners for the development of domestic market and further enhancement of the retail chain operations. The Group will continue its strategy in exploring the opportunities with new potential retail chain partners in domestic market to expand the coverage and market share.

As for the gold mining business, the Group will carry on exploration and exploitation works as needed and anticipate a more diversified revenue stream in the near future.

While the financial crisis was still adversely impacting the markets in the United States and Europe, the Group expects the export business will be still facing a tough operating environment in the second half of the year. The Group will continue to maintain its presence in the major international jewellery trade fairs and exhibitions so as to preserve its market shares and premier clientele.

## **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2010, the Group maintained a sound financial position where cash and cash equivalents and current ratio, as a ratio of current assets to current liabilities, were approximately HK\$192 million and 4.13 respectively.

An analysis of the Group's current assets and current liabilities as at 31 March 2010 and the comparison figures as at 30 September 2009 is presented in the statement of financial position with the relevant notes to financial statements.

The Group finances its operations and investing activities through a combination of operating cash inflows and interest bearing bank borrowings. The Group's total interest bearing bank borrowings as at 31 March 2010 amounted to approximately HK\$140.7 million (30 September 2009: HK\$214.9 million) representing a decrease of approximately HK\$74.2 million. The interest bearing bank borrowings were mainly used for working capital purpose and carried at commercial lending rates. All of the total interest bearing bank borrowings as at 31 March 2010 was repayable within a year. The Group's gearing ratio for the period was 11.8% (30 September 2009: 31.6%).

## **FOREIGN EXCHANGE EXPOSURE**

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 also 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.



## CAPITAL STRUCTURE

As at 31 March 2010, the total number of shares of HK\$0.01 each in the capital of the Company in issue was 1,485,686,162 and the capital and reserves attributable to the Company's equity holders amounted to HK\$1,047.60 million (30 September 2009: HK\$678.8 million).

Apart from those set out above, the current information in other management and discussion analysis has not changed materially from those information disclosed in the last published 2009 annual report.

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

As at 31 March 2010, 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, Jeffrey	Corporate (Notes)	426,732,714	–	426,732,714	28.72%

### Notes:

- The interest disclosed represents the 426,732,714 shares held by Equity Base Holdings Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Wong Chi Ming, Jeffrey by virtue of Section 344(3) of the SFO.
- All the interests disclosed above represent long positions in the shares of the Company.
- Ms. Lui Ching Han, Magda, the spouse of Mr. Wong Chi Ming, Jeffrey is deemed to be interested in these shares under the SFO.

Mr. Wong Chi Ming, Jeffrey is the sole shareholder of Equity Base Holdings Limited.

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.

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

Save as disclosed above, as at 31 March 2010, 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**

At no time during the period 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.

### **SHARE OPTION SCHEME**

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 on 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 other expiry date(s) stipulated in 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.

No share options were cancelled or lapsed during the period.

## SHARE OPTION SCHEME (CONTINUED)

Details of the specific categories of options are as follows:

Date of grant	Exercise period	Exercise price HK\$	Closing price immediate before the date on which options were granted HK\$
10 December 2008	10 December 2008 to 9 December 2011	0.1634	0.1490
11 May 2009	11 May 2009 to 10 May 2012	0.435	0.430
7 July 2009	7 July 2009 to 6 July 2012	0.630	0.630

Eligible participants	Date of grant	Exercise price	Exercise period	Vesting period	Number of shares issuable under share options			
					As at 1 October 2009	Granted during the period	Exercised during the period	As at 31 March 2010
Employees (excluding Directors)	11 May 2009	HK\$0.435	11 May 2009 to 10 May 2012	Nil	10,700,000	-	(10,700,000)	-
Suppliers of goods or services and others	10 December 2008	HK\$0.1634	10 December 2008 to 9 December 2011	Nil	53,500,000	-	(37,500,000)	16,000,000
	11 May 2009	HK\$0.435	11 May 2009 to 10 May 2012	Nil	37,000,000	-	-	37,000,000
	7 July 2009	HK\$0.63	7 July 2009 to 6 July 2012	Nil	80,625,000	-	(18,625,000)	62,000,000
			Total		<u>181,825,000</u>	<u>-</u>	<u>(66,825,000)</u>	<u>115,000,000</u>

Exercisable at the end of the period 115,000,000.

Weighted average exercise price HK\$0.5023.

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

## SHARE OPTION SCHEME (CONTINUED)

The fair value was calculated using Black-Scholes-Merton Option Pricing Model. This model is commonly used model to estimate the fair value of the share options. The variables and assumptions used in computing the fair value of the share options are based on the director's best estimate. The value of an option varies with different variable of certain assumption. The input into the model was as follows:

	10-Dec-08	11-May-09	7-Jul-09
Fair value per option	HK\$0.07521	HK\$0.24203	HK\$0.34622
Weighted average share price	HK\$0.146	HK\$0.435	HK\$0.61
Exercise price	HK\$0.1634	HK\$0.435	HK\$0.63
Expected volatility	89.207%	92.733%	90.494%
Expected life	3 years	3 years	3 years
Risk free rate	1.065%	1.023%	1.160%
Expected dividend yield	1.210%	1.210%	-

Expected volatility was determined by using historical volatility of the Company's share price over the past years. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non transferability, exercise restrictions and behavioural considerations.

## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2010, the following persons (other than the information disclosed in the section of Directors' Interests) 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	426,732,714 <i>(Notes (a) and (d))</i>	28.72%
Ms. Li Shan	161,111,111 <i>(Notes (b) and (d))</i>	10.84%
Apex Empire Investment Limited	161,111,111 <i>(Notes (b) and (d))</i>	10.84%
Mr. Cheng Yu Tung	62,550,000 <i>(Notes (c) and (d))</i>	4.21%
Chow Tai Fook Nominee Limited	62,550,000 <i>(Notes (c) and (d))</i>	4.21%

## **SUBSTANTIAL SHAREHOLDERS (CONTINUED)**

### *Notes:*

- (a) These interests are also included as corporate interests of Mr. Wong Chi Ming, Jeffrey, as disclosed under the heading "Directors' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporations". Ms. Lui Ching Han, Magda, the spouse of Mr. Wong Chi Ming, Jeffrey is deemed to be interested in these shares under the SFO.
- (b) Apex Empire Investment Limited is owned as to 100% by Ms. Li Shan.
- (c) Mr Cheng Yu Tung is deemed to be interested in these shares through Chow Tai Fook Nominee Limited which is a corporation controlled by Mr. Cheng.
- (d) All the interests stated above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 March 2010, 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.

## **EMPLOYEES AND EMPLOYMENT POLICIES**

As at 31 March 2010, the Group had approximately 127 employees with remuneration of approximately HK\$6.2 million for the period under review. The Group's emolument policies are formulated on the performance of individual employee and will be reviewed regularly every year.

The Group has established a share option scheme for its employees and other eligible participants with a view to providing an incentive to or as a reward for their contribution to the Group.

## **PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY**

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

## **CORPORATE GOVERNANCE**

During the six months ended 31 March 2010, the Company has complied with the code provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Further information about Chairman and Chief Executive Officer

Provision A.2.1 of the Code stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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 the operation of the Company.

## **MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules regarding securities transactions by its directors. The Company has made specific enquiry of all Directors regarding any non-compliance with the Model Code. All the Directors confirmed that they have fully complied with the required standard set out in the Model Code during the period.

## **AUDIT COMMITTEE**

The Company has an audit committee which was established, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. Currently the audit committee comprises the three independent non-executive directors of the Company. The unaudited interim report for the period has been reviewed and approved by the audit committee.

## APPRECIATION

On behalf of the Board, I would like to express our appreciation to all our management and staff members for their ongoing contribution and hard work. We would also like to thank our shareholders for their continuing support.

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

Hong Kong, 15 June 2010

*As at the date of this report, the Company's executive directors are Mr. Wong Chi Ming, Jeffry, Mr. Chung Yuk Lun and Mr. Yu Fei, Philip and the independent non-executive directors are Mr. Jiang Chao, Mr. Chan Man Kiu and Mr. Tam Ping Kuen, Daniel.*