



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 2011

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 2011, which have been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		For the six months ended 31 March	
		2011	2010
	<i>Notes</i>	(Unaudited)	(Unaudited)
		HK\$'000	HK\$'000
Turnover	3	402,740	344,507
Cost of sales		(300,657)	(248,202)
Gross profit		102,083	96,305
Other revenue	3	615	340
Selling and distribution expenses		(23,868)	(26,530)
Administrative expenses		(15,576)	(14,018)
Profit from operating activities	5	63,254	56,097
Finance costs	6	(108)	(2,094)
Profit before tax		63,146	54,003
Tax	7	(13,795)	(12,972)
Profit for the period		49,351	41,031
Other comprehensive income:			
Exchange difference arising on translation of foreign operations		13,865	237
Total comprehensive income for the period		63,216	41,268
Profit for the period attributable to:			
Equity holders of the Company		49,735	41,235
Non-controlling interests		(384)	(204)
		49,351	41,031
Total comprehensive income for the period attributable to:			
Equity holders of the Company		63,433	41,801
Non-controlling interests		(217)	(533)
		63,216	41,268
Earnings per share attributable to the equity holders of the Company	9		
Basic		HK1.8 cents	HK4.0 cents
Diluted		HK1.7 cents	HK3.9 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		31 March 2011 (Unaudited) HK\$'000	30 September 2010 (Audited) HK\$'000
	<i>Notes</i>		
Non-current Assets			
Mining rights	10	330,468	324,290
Exploration and evaluation assets	11	106,668	100,013
Property, plant and equipment		40,233	43,552
		477,369	467,855
Current Assets			
Inventories		748,261	628,876
Trade receivables	12	214,402	228,048
Prepayments, deposits and other receivables		27,768	27,517
Cash and cash equivalents		448,077	216,832
		1,438,508	1,101,273
Current Liabilities			
Trade payables	13	9,018	11,379
Other payables and accruals		3,182	6,678
Secured interest bearing bank borrowings		-	3,545
Tax payables		77,518	78,751
		89,718	100,353
Net Current Assets		1,348,790	1,000,920
Net Assets		1,826,159	1,468,775
EQUITY			
Equity attributable to the Company's equity holders			
Share capital	14	29,078	24,986
Reserves		1,648,623	1,295,114
		1,677,701	1,320,100
Non-controlling interests		148,458	148,675
		1,826,159	1,468,775

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Share capital (Unaudited)	Share premium (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)
<i>Notes</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 October 2010	24,986	694,647	527,905	20,830	50,940	-	792	148,675	1,468,775
Total comprehensive income for the period	-	-	49,735	13,698	-	-	-	(217)	63,216
Issue of shares upon exercise of share options	<i>14</i> 532	32,790	-	-	(8,897)	-	-	-	24,425
Placement of new shares	<i>14</i> 3,560	266,183	-	-	-	-	-	-	269,743
At 31 March 2011	29,078	993,620	577,640	34,528	42,043	-	792	148,458	1,826,159

	Share capital (Unaudited)	Share premium (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)
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
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	14,857	509,574	480,161	10,576	31,624	-	792	146,134	1,193,718

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	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Net cash generated from/(used in):		
Operating activities	(60,917)	3,507
Investing activities	(4,135)	(889)
Financing activities	290,463	(19,316)
	<hr/>	<hr/>
Net increase/(decrease) in cash and cash equivalents	225,411	(16,698)
Effect of foreign exchange rates changes	5,834	217
Cash and cash equivalents at the beginning of the period	216,832	208,528
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period	448,077	192,047
	<hr/> <hr/>	<hr/> <hr/>
Analysis of balances of cash and cash equivalents		
Cash and bank balances	421,163	169,426
Non-pledged time deposits with original maturity of less than 3 months when acquired	26,914	26,207
Bank overdrafts, secured	-	(3,586)
	<hr/>	<hr/>
	448,077	192,047
	<hr/> <hr/>	<hr/> <hr/>

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 with the Hong Kong Accounting Standard ("HKAS") 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 2010 except as described below.

2. PRINCIPAL ACCOUNTING POLICIES

In the current period, the Group has applied, for the first time, the following new and revised Hong Kong Financial Reporting Standards ("HKFRSs") (which also include HKASs and Interpretations) issued by the HKICPA which are effective for the Group's financial year beginning on or after 1 October 2010:

HKFRSs (Amendments)	Improvements to HKFRSs 2009
HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 relation to amendments to HKAS 24 and HK(IFRIC) – Interpretation 14
HKFRSs 2 (Amendment)	Group cash-settled share-based payment transactions
Amendments to HKAS 32	Classification of Rights Issues
HK(IFRIC) – Interpretation 19	Extinguishing Financial Liabilities with Equity Instruments
HK Interpretation 5	Presentation of Financial Statements – Classification by the Borrower of a Term Loan that contains a Repayment on Demand Clause

The adoption of the above new/revised HKFRSs had no material effect on the reported results or financial position of the Group for both the current and prior reporting periods reflected in these financial statements.

The Group has not early applied the following new or revised HKFRSs that have been issued but are not yet effective, but potentially relevant to the Group's operations.

HKFRSs (Amendments)	Improvements to HKFRSs issued in 2010 in relation to amendments to HKAS 1, HKAS 27, HKFRS 1, HKFRS 3 and HKFRS 7 ¹
HKFRS 1 (Amendments)	Severe Hyperinflation and Removal of Fixed Dates for First – time Adopters ²
HKAS 24 (Revised)	Related Party Disclosures ¹
HK (IFRIC) – Interpretation 14 (Amendment)	Prepayments of a Minimum Funding Requirement ¹
HKFRS 7 (Amendment)	Disclosures – transfers of Financial Assets ²
HKAS 12 (Amendment)	Deferred Tax: Recovery of Underlying Assets ³
HKFRS 9	Financial Instruments ⁴

1 Effective for annual periods beginning on or after 1 January 2011

2 Effective for annual periods beginning on or after 1 July 2011

3 Effective for annual periods beginning on or after 1 January 2012

4 Effective for annual periods beginning on or after 1 January 2013

The directors of the Company anticipate that the application of these new and revised HKFRSs will have no material impacts 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 and other revenue is as follows:

	For the six months ended 31 March	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Turnover – sale of goods	402,740	344,507
Other revenue		
Interest income	615	340
	403,355	344,847

4. SEGMENT INFORMATION

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 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 2011:

	Exports (Unaudited) HK\$'000	Domestic (Unaudited) HK\$'000	Mining (Unaudited) HK\$'000	Consolidated (Unaudited) HK\$'000
Segment revenue:				
Sales to external customers	<u>145,317</u>	<u>257,423</u>	<u>-</u>	<u>402,740</u>
Segment results	<u>5,193</u>	<u>68,822</u>	<u>(1,048)</u>	<u>72,967</u>
Unallocated revenue				615
Unallocated expenses				<u>(10,328)</u>
Profit from operating activities				63,254
Finance costs				<u>(108)</u>
Profit before tax				63,146
Tax				<u>(13,795)</u>
Profit for the period				<u>49,351</u>

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				56,097
Finance costs				<u>(2,094)</u>
Profit before tax				54,003
Tax				<u>(12,972)</u>
Profit for the period				<u>41,031</u>

5. PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 31 March	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Cost of inventories sold	300,657	248,202
Depreciation	3,319	4,873
	<u>303,976</u>	<u>253,075</u>

6. FINANCE COSTS

	For the six months ended 31 March	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Interest on interest bearing bank overdrafts, trust receipt loans and other interest bearing bank loans wholly repayable within 5 years	108	2,094
	<u>108</u>	<u>2,094</u>

7. TAX

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

	For the six months ended 31 March	
	2011	2010
	(Unaudited)	(Unaudited)
	HK\$'000	HK\$'000
Current period provision:		
Hong Kong profits tax	-	-
Overseas taxation	13,795	12,972
	<u>13,795</u>	<u>12,972</u>
Tax charge for the period	<u>13,795</u>	<u>12,972</u>

- (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 PRC tax which is calculated at the prevailing tax rate on the assessable profits based on existing legislation, interpretations and practices in respect thereof.

7. TAX (CONTINUED)

The taxation for the period can be reconciled to the profit before tax per the condensed consolidated statement of comprehensive income as follows:

	For the six months ended 31 March 2011 (Unaudited) HK\$'000	2010 (Unaudited) HK\$'000
Profit before tax	<u>63,146</u>	54,003
Tax at the statutory rate of 16.5% (2010: 16.5%)	10,419	8,910
Effect of different tax rates for companies operating in other jurisdictions	2,871	3,506
Income not subjected to tax	(516)	(265)
Expenses not deductible for tax	403	317
Unutilised tax losses	<u>618</u>	504
	<u>13,795</u>	<u>12,972</u>

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 2010: Nil).

8. DIVIDEND

The Board does not recommend the payment of an interim dividend for the period (for the six months ended 31 March 2010: 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\$49,735,000 (for the six months ended 31 March 2010: HK\$41,235,000) and the weighted average of 2,772,285,901 (for the six months ended 31 March 2010: 1,028,805,210) 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\$49,735,000 (for the six months ended 31 March 2010: HK\$41,235,000) and the weighted average number of 2,933,976,290 (for the six months ended 31 March 2010: 1,070,969,362) 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 2,772,285,901 (for the six months ended 31 March 2010: 1,028,805,210) ordinary shares in issue during the period and the weighted average number of 161,690,389 (for the six months ended 31 March 2010: 42,164,152) ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options.

10. MINING RIGHTS

	(Unaudited) HK\$'000
Cost	
At 1 October 2010	324,290
Exchange realignment	6,178
	<u>330,468</u>
At 31 March 2011	<u><u>330,468</u></u>
Net book value	
At 31 March 2011	<u><u>330,468</u></u>
At 30 September 2010	<u><u>324,290</u></u>
(a) The gold mining license is stated at cost less impairment losses.	
(b) No amortisation was made during the period as the gold mines are in a development stage and no mining activities are conducted.	

11. EXPLORATION AND EVALUATION ASSETS

	Exploration license (Unaudited) HK\$'000
At 1 October 2010	100,013
Addition	4,750
Exchange realignments	1,905
	<u>106,668</u>
At 31 March 2011	<u><u>106,668</u></u>

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:

	31 March 2011 (Unaudited) HK\$'000	30 September 2010 (Audited) HK\$'000
1 – 30 days	82,474	86,367
31 – 60 days	66,673	76,864
61 – 90 days	63,109	64,817
91 – 120 days	2,146	–
	<u><u>214,402</u></u>	<u><u>228,048</u></u>

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:

	31 March 2011 (Unaudited) HK\$'000	30 September 2010 (Audited) HK\$'000
1 – 30 days	6,957	11,379
31 – 60 days	537	–
61 – 90 days	1,524	–
	9,018	11,379

14. SHARE CAPITAL

	Number of shares '000	Nominal Value HK\$'000
Authorised ordinary shares of HK\$0.01 each		
At 30 September 2010 (Audited) and 31 March 2011 (Unaudited)	10,000,000	100,000
Issued and fully paid:		
At 30 September 2010 (Audited)	2,498,561	24,986
Issue of new shares (Notes i)	356,000	3,560
Exercise of share options (Notes ii)	53,200	532
At 31 March 2011 (Unaudited)	2,907,761	29,078

Notes:

- (i) On 14 December 2010, the Company entered into a placing agreement with Kingston Securities Limited to place 356,000,000 shares at the subscription price of HK\$0.78 per share. The proceeds are used for the jewellery retail business and/or general working capital of the Group.
- (ii) During the period, part of the share options granted were exercised for 53,200,000 shares at exercise price of HK\$0.3107, HK\$0.45 and HK\$0.4786 respectively which raised gross proceeds of HK\$24.4 million.

15. CONTINGENT LIABILITIES

As at 31 March 2011, the Company had executed corporate guarantees to banks for banking facilities granted to certain subsidiaries of the Company. None of banking facilities have been utilized as at 31 March 2011 (30 September 2010: HK\$3.5 million).

16. OPERATING LEASE ARRANGEMENTS

As at 31 March 2011, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	31 March 2011 (Unaudited) HK\$'000	30 September 2010 (Audited) HK\$'000
Within 1 year	1,909	647
In 2 to 5 years, inclusive	1,322	–
	3,231	647

17. CAPITAL COMMITMENTS

	31 March 2011 (Unaudited) HK\$'000	30 September 2010 (Audited) HK\$'000
Capital expenditure contracted for but not provided in the condensed consolidated financial statements in respect of:		
– Within 1 year	8,004	11,583
– In 2 to 5 years, inclusive	10,854	10,651
	18,858	22,234

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the period, the Group's turnover was approximately HK402.7 million, representing an increase of about 16.9% as compared to approximately HK\$344.5 million for the six months ended 31 March 2010. The management's continued efforts to expand in PRC jewellery market are increasingly successful. The Group's domestic sales reached another record high of approximately HK\$257.4 million, representing an increase of 18.5% as compared to approximately HK\$217.3 million for the six months ended 31 March 2010. With the slightly improved consumer spending in United States and Europe, the export sales increase 14.2% to HK\$145.3 million as compared to HK\$127.2 million for the six months ended 31 March 2010. Sales from China constituted 63.8% of total sales while export sales from United States and Europe accounted for the balance 36.2%.

During the period, the selling and distribution expenses of the Group amounted to approximately HK\$23.9 million, representing a decrease of about 9.8% as compared to HK\$26.5 million for the six months ended 31 March 2010. Accordingly, the Group's operating margin was 15.7%, representing about 0.6% decrease when compared to the same period of last year.

The Group's administrative expenses for the period was fairly stable at approximately HK\$15.6 million when compared to HK\$14.0 million for the six months ended 31 March 2010.

The Group has already started its cooperation with Hengdeli Holdings Limited, ("Hengdeli"), products were placed for sales in selected Hengdeli stores in the major cities in PRC. As at 31 December 2010, Hengdeli had 350 retail outlets across Mainland China, Hong Kong and Taiwan. The Group will look to tap on Hengdeli's wide network of sales points to penetrate the domestic jewellery market.

The Group is in progress to complete the acquisition of Shenzhen Qijingda Trade Company Limited. Upon completion of this acquisition, it will immediately provide the Group a network base of not less than 42 outlets in China and an opportunity to collaborate with international renowned brands for their products distributorship in the Greater China Region.

During the period under review, the Group is in the preliminary investment stage of the production design works in the gold mines located in Chi Feng City, Inner Mongolia Autonomous Region, PRC, which are expected to generate revenue and profitability for the Group in the near future. As for the gold mines located in Chi Zhou City, in Anhui Province, PRC, the Group is consulting professional advice from mining geologists to carry out the necessary preparation work for future development.

FUTURE PLANS AND PROSPECTS

Mainland Chinese are becoming rich at lightning speed, faster than anywhere else in the world. According to McKinsey, China's wealthy households with annual incomes of between RMB300,000 and RMB1 million are increasing at 2010-15 estimated compound annual growth rate (CAGR) of 15%. 5.6 million households will fall under this income category by 2015. China's luxury goods market will grow at an 18% CAGR from RMB80 billion in 2010 to RMB180 billion in 2015 and the country will overtake Japan as the world's largest luxury market with a 20% market share by then.

The Group believes the jewellery retail business in PRC would continue to be a blooming and prosperous market. With the Group's participation in cooperating with Hengdeli (3389.HK) – the world's largest retailer and wholesaler of high prestige global brand watches, with the access of selling jewellery in their selected retail outlets and own brand stores across the nation, this should further help the Group's profit at the end of year. Meanwhile, we will continue to actively look for suitable targets for acquisition which will benefit the Group to further expand its retail network and hence boost its brand recognition.

The global economic recovery has improved slightly, but still vulnerable to the challenges of the fragile US and European economies. The Group expects the export business will be still facing a tough operation environment in the second half of the year. Still, 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.

As the gold price recaptured US\$1,500 per ounce level lately, the Group will carry on exploration and exploitation works for the gold mining business as needed and anticipate a more diversified revenue stream in the near future.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 March 2011, 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\$448 million and 16.03 respectively.

An analysis of the Group's current assets and current liabilities as at 31 March 2011 and the comparison figures as at 30 September 2010 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 has no interest bearing bank borrowings as at 31 March 2011 (30 September 2010: HK\$3.5 million) representing a decrease of approximately HK\$3.5 million. The Group kept a strong and adequate financial position during the period under review and is well prepared for cash flow budget in the coming year.

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 2011, the total number of shares of HK\$0.01 each in the capital of the Company in issue was 2,907,760,626 and the capital and reserves attributable to the Company's equity holders amounted to HK\$1,818.1 million (30 September 2010: HK\$1,468.8 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 2010 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 2011, 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)	295,025,799	–	295,025,799	10.15%

Notes:

- The interest disclosed represents the 295,025,799 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 2011, 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.

SHARE OPTION SCHEME (CONTINUED)

No share options were cancelled or lapsed during the period.

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
17 June 2010	17 June 2010 to 16 June 2013	0.670	0.670

Eligible participants	Date of grant	Exercise price	Exercise period	Vesting period	Number of shares issuable under share options			
					As at 1 October 2010	Granted during the period	Exercised during the period	As at 31 March 2011
Other Eligible Participants	10 December 2008	HK\$0.1167*	10 December 2008 to 9 December 2011	Nil	22,400,000	-	-	22,400,000
	11 May 2009	HK\$0.3107*	11 May 2009 to 10 May 2012	Nil	51,800,000	-	(1,400,000)	50,400,000
	7 July 2009	HK\$0.4500*	7 July 2009 to 6 July 2012	Nil	84,000,000	-	(28,000,000)	56,000,000
	17 June 2010	HK\$0.4786*	17 June 2010 to 16 June 2013	Nil	249,200,000	-	(23,800,000)	225,400,000
			Total		<u>407,400,000</u>	<u>-</u>	<u>(53,200,000)</u>	<u>354,200,000</u>

Exercisable at the end of the period 354,200,000.

Weighted average exercise price HK\$0.4136.

* Upon passing of the resolution for the bonus issue on the basis of 4 bonus shares for every 10 existing shares on the record date ("Bonus Issue") by the shareholders at the extraordinary general meeting held on 12 July 2010 and pursuant to the Scheme, the exercise price of the share options granted under the Scheme and the number of shares to be allotted and issued upon full exercise of the subscription right attaching to the outstanding share options were adjusted in accordance with the terms of the Scheme and the Listing Rules.

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)

These fair values were calculated using Black-Scholes 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 inputs into the model were as follows:

	10-Dec-08	11-May-09	7-Jul-09	17-Jun-10
Fair value per option	HK\$0.07521	HK\$0.242026	HK\$0.346217	HK\$0.08029
Share price				
at the grant date	HK\$0.146	HK\$0.435	HK\$0.61	HK\$0.4790*
Exercise price	HK\$0.1634	HK\$0.435	HK\$0.63	HK\$0.4786
Expected volatility	89.207%	92.733%	90.494%	53.551%
Expected life	3 years	3 years	3 years	0.75 years
Risk free rate	1.065%	1.023%	1.160%	0.515%
Expected dividend yield	1.210%	1.210%	–	–

* Share price adjusted for Bonus Issue.

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 2011, 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	295,025,799 <i>(Notes (a) and (c))</i>	10.15%
Mr. Choy Shiu Tim	280,000,000 <i>(Note (c))</i>	9.63%
Atlantis Investment Management Limited	228,900,000 <i>(Notes (b) and (c))</i>	7.87%
Atlantis Investment Management (Hong Kong) Limited	234,900,000 <i>(Notes (b) and (c))</i>	8.08%
Ms. Liu Yang	234,900,000 <i>(Notes (b) and (c))</i>	8.08%

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) Atlantis Investment Management Limited and Atlantis Investment Management (Hong Kong) Limited are controlled corporations of Ms. Liu.
- (c) All the interests stated above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 March 2011, 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 2011, the Group had approximately 64 employees with remuneration of approximately HK\$5.3 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 2011, 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, Jeffrey ("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, 26 May 2011

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.