



MING FUNG JEWELLERY GROUP LIMITED

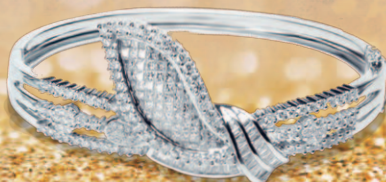
明豐珠寶集團有限公司

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



# 2014

INTERIM REPORT



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 2014, which have been reviewed by the Company's audit committee.

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 31 MARCH 2014

		For the six months ended 31 March	
		2014	2013
	Notes	HK\$'000	HK\$'000
		(Unaudited)	(Unaudited)
Turnover	4	393,883	465,417
Cost of sales		(315,382)	(338,259)
Gross profit		78,501	127,158
Other revenue and net gains	4	638	1,083
Amortisation of intangible assets		(6,258)	(6,037)
Impairment loss on goodwill	13	(43,014)	–
Selling and distribution expenses		(26,068)	(27,634)
Administrative expenses		(17,149)	(17,624)
(Loss) profit from operating activities	6	(13,350)	76,946
Finance costs	7	(3,276)	(2,147)
(Loss) profit before taxation		(16,626)	74,799
Income tax expense	8	(4,255)	(17,304)
(Loss) profit for the period		(20,881)	57,495
<b>Items that may be classified subsequently to profit or loss:</b>			
Exchange difference arising on translation of foreign operations		(7,478)	7,034
Total comprehensive (expenses) income for the period		(28,359)	64,529

## CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (continued)

FOR THE SIX MONTHS ENDED 31 MARCH 2014

	Note	For the six months ended 31 March	
		2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(20,891)	57,402
Non-controlling interests		10	93
		(20,881)	57,495
Total comprehensive (expenses) income attributable to:			
Owners of the Company		(27,614)	62,271
Non-controlling interests		(745)	2,258
		(28,359)	64,529
(Loss) earnings per share			
— Basic and diluted	10	HK(0.48) cents	HK1.3 cents

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 MARCH 2014

	Notes	At 31 March 2014 HK\$'000 (Unaudited)	At 30 September 2013 HK\$'000 (Audited)
<b>Non-current assets</b>			
Intangible assets	11	185,988	193,297
Exploration and evaluation assets	12	2,016	2,046
Property, plant and equipment		57,783	59,015
Goodwill	13	40,484	83,498
Contingent consideration receivable		113,507	113,507
		<b>399,778</b>	<b>451,363</b>
<b>Current assets</b>			
Inventories		1,570,931	1,582,785
Trade receivables	14	127,983	102,044
Deposits, prepayments and other receivables		125,243	95,264
Bank balances and cash		112,413	142,872
		<b>1,936,570</b>	<b>1,922,965</b>
<b>Current liabilities</b>			
Trade payables	15	60,098	68,999
Accruals and other payables		65,212	72,143
Borrowings		62,453	55,607
Income tax payable		81,462	80,535
		<b>269,225</b>	<b>277,284</b>
<b>Net Current Assets</b>		<b>1,667,345</b>	<b>1,645,681</b>

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

AT 31 MARCH 2014

	Note	At 31 March 2014 HK\$'000 (Unaudited)	At 30 September 2013 HK\$'000 (Audited)
<b>Total assets less current liabilities</b>		<b>2,067,123</b>	2,097,044
<b>Non-current liabilities</b>			
Deferred tax liabilities		60,350	61,912
<b>Net assets</b>		<b>2,006,773</b>	2,035,132
<b>Capital and reserves</b>			
Share capital	16	43,660	43,660
Reserves		1,915,489	1,943,103
Equity attributable to the owners of the Company		1,959,149	1,986,763
Non-controlling interests		47,624	48,369
		<b>2,006,773</b>	2,035,132

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 31 MARCH 2014

	Attributable to owners of the Company										
	Share capital	Share premium	Exchange reserve	Share-based payment reserve	Warrants reserve	Statutory reserve	Other reserve	Retained earnings	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 October 2012 (Audited)	43,660	1,910,709	52,267	8,784	11,427	792	11	752,880	2,780,530	133,760	2,914,290
Total comprehensive income for the period	-	-	4,869	-	-	-	-	57,402	62,271	2,258	64,529
At 31 March 2013 (Unaudited)	43,660	1,910,709	57,136	8,784	11,427	792	11	810,282	2,842,801	136,018	2,978,819
At 1 October 2013 (Audited)	43,660	1,910,709	76,073	-	-	792	11	(44,482)	1,986,763	48,369	2,035,132
Total comprehensive expenses for the period	-	-	(6,723)	-	-	-	-	(20,891)	(27,614)	(745)	(28,359)
At 31 March 2014 (Unaudited)	43,660	1,910,709	69,350	-	-	792	11	(65,373)	1,959,149	47,624	2,006,773

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 2014

	For the six months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Net cash used in operating activities	(30,146)	(9,340)
Net cash generated from investing activities	638	1,083
Net cash generated from (used in) financing activities	3,570	(18,128)
Net decrease in cash and cash equivalents	(25,938)	(26,385)
Cash and cash equivalents at the beginning of the period	142,872	344,899
Effect of foreign exchange rate changes	(4,521)	(650)
Cash and cash equivalents at the end of the period, represented by bank balance and cash	112,413	317,864

# NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 31 MARCH 2014

## 1. CORPORATE INFORMATION

Ming Fung Jewellery Group Limited ("Company") was incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The functional currency of the Company and its subsidiaries (collectively referred to as the "Group") is Hong Kong dollars ("HK\$") and for those subsidiaries established in the People's Republic of China (the "PRC") and Italy are Renminbi ("RMB") and Euro respectively. The condensed consolidated financial statements are presented in Hong Kong dollars ("HK\$") for the convenience of users of the condensed consolidated financial statements as the Company is listed in Hong Kong.

The Company is principally engaged in investment holding and the principal activities of its subsidiaries are exports and domestic trading, retail and wholesale of jewellery products, writing instruments and watches and mining.

## 2. 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 (the "Listing Rules") and with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

## 3. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments, which are measured at fair values, as appropriate.

Except as described below, the accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 31 March 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 30 September 2013.



### 3. PRINCIPAL ACCOUNTING POLICIES (continued)

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009–2011 Cycle
Amendments to HKFRS 7	Disclosures — Offsetting Financial Assets and Liabilities
Amendments to HKFRS 10,	Consolidated Financial Statements, Joint Arrangements and
HKFRS 11 and HKFRS 12	Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

The adoption of the new and revised HKFRSs in the current interim period had no material impact on the Group's financial performance, financial position and/or disclosures set out in the condensed consolidated financial statements.

#### New and revised HKFRSs issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle <sup>2</sup>
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle <sup>2</sup>
HKFRS 9	Financial Instruments <sup>3</sup>
HKFRS 14	Regulatory Deferral Accounts <sup>4</sup>
Amendments to HKFRS 9 and	Mandatory Effective Date of HKFRS 9 and Transition
HKFRS 7	Disclosures <sup>3</sup>
Amendments to HKFRS 10,	Investment Entities <sup>2</sup>
HKFRS 12 and HKAS 27	
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions <sup>2</sup>
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities <sup>1</sup>
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets <sup>1</sup>
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge
	Accounting <sup>1</sup>
HK(IFRIC)-Int 21	Levies <sup>1</sup>

- Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
- Effective for annual periods beginning on or after 1 July 2014, with earlier application permitted.
- Available for application — the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
- Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

The directors anticipate the application of the other new and revised standards, amendments and interpretations will have no material impact on the results and financial position of the Group.

#### 4. TURNOVER AND OTHER REVENUE AND NET GAINS

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of turnover and other revenue is as follows:

	For the six months ended 31 March	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Turnover — sale of goods	393,883	465,417
Other revenue		
Interest income	597	1,083
Sundry income	41	—
	638	1,083
	394,521	466,500

#### 5. SEGMENT INFORMATION

Operating segments are reported in a manner consistent with internal reporting provided to the board of directors of the Company who is responsible for allocating resources and assessing performance of the operating segments.

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:

- Exports segment is export of manufactured jewellery products and writing instruments;
- Domestic segment is trading of jewellery products and watches for the Group's retail and wholesale business in the PRC; and
- Mining segment comprised the mining, exploration and sale of gold resources.

**5. SEGMENT INFORMATION** *(continued)*

Segment information about these reportable segments is presented below:

**(a) Segment revenues and results**

For the six months ended 31 March

	Exports		Domestic		Mining		Total	
	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)	2014 HK\$'000 (Unaudited)	2013 HK\$'000 (Unaudited)
Segment revenue:								
External sales	19,704	16,921	374,179	448,496	-	-	393,883	465,417
Segment results	(20,203)	(1,745)	13,653	86,343	(781)	(621)	(7,331)	83,977
Unallocated corporate income and expenses							(9,295)	(9,178)
(Loss) profit before taxation							(16,626)	74,799

The segment results represent the results earned by each segment without allocation of central administration costs, directors' salaries, interest income and finance costs. This is the measure reported to the chief operating decision makers, being the directors of the Company, for the purposes of resource allocation and assessment of segment performance.

5. **SEGMENT INFORMATION** (continued)  
**(b) Segment assets and liabilities**

	Exports		Domestic		Mining		Total	
	At	At	At	At	At	At	At	At
	31 March 2014	30 September 2013	31 March 2014	30 September 2013	31 March 2014	30 September 2013	31 March 2014	30 September 2013
	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)	HK\$'000 (Unaudited)	HK\$'000 (Audited)
<b>ASSETS</b>								
Segment assets	136,418	142,853	1,841,602	1,837,011	126,586	133,393	2,104,606	2,113,257
Unallocated segment assets							231,742	261,071
Total assets							2,336,348	2,374,328
<b>LIABILITIES</b>								
Segment liabilities	10,052	11,576	105,123	98,728	9,014	9,433	124,189	119,737
Unallocated segment liabilities							205,386	219,459
Total liabilities							329,575	339,196

For the purpose of monitoring segment performances and allocating resources between segment:

- all assets are allocated to operating segments, other than contingent consideration receivables and bank balances and cash which are not able to allocate into reportable segments.
- all liabilities are allocated to operating segments, other than borrowings, deferred tax liabilities and income tax payable which are not able to allocate into reportable segments.

## 5. SEGMENT INFORMATION (continued)

## (c) Geographic information

Information about the Group's revenue from external customers and non-current assets is presented based on the location of operations and geographical location of assets respectively.

	Revenue from external customers		Non-current assets at	
	For the six months ended 31 March		31 March 2014	30 September 2013
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)	(Unaudited)	(Audited)
Europe	19,704	16,921	87,618	112,002
Middle East and Asia	374,179	448,496	198,653	225,854
	393,883	465,417	286,271	337,856

Note: Non-current assets excluded contingent consideration receivable.

## 6. (LOSS) PROFIT FROM OPERATING ACTIVITIES

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

	For the six months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Cost of inventories sold	315,382	338,259
Depreciation of property, plant and equipment	2,819	5,017
Minimum lease payments under operating leases on leasehold land and buildings	1,642	2,593
Staff costs (excluding directors' remuneration):		
— wages, salaries and other benefits	10,324	10,680
— retirement benefits scheme contributions	974	874
— directors' remuneration	260	567

## 7. FINANCE COSTS

	For the six months ended 31 March	
	2014	2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Interest on bank loans wholly repayable within five years	3,276	2,147

**8. INCOME TAX EXPENSE**

	<b>For the six months ended 31 March</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Current period provision		
Hong Kong Profits Tax	<b>949</b>	659
Overseas taxation	<b>4,978</b>	15,689
Under-provision in previous years	<b>–</b>	956
Deferred taxation	<b>(1,672)</b>	–
<b>Income tax expense</b>	<b>4,255</b>	17,304

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profits for both periods. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the Group's subsidiaries in the PRC is 25% from 1 January 2008 onwards.

**9. DIVIDEND**

The Board does not recommend the payment of an interim dividend for the six months ended 31 March 2014 (for the six months ended 31 March 2013: Nil).

**10. (LOSS) EARNINGS PER SHARE**

The calculation of basis (loss) earnings per share is based on the loss for the six months ended 31 March 2014 attributable to the owners of the Company of approximately HK\$20,891,000 (six months ended 31 March 2013: profit of approximately HK\$57,402,000) and the weighted average number of 4,366,027,293 (2013: 4,366,027,293) ordinary shares in issue during the period.

The computation of diluted loss per share for the six months ended 31 March 2014 is the same as the basic loss per share because the Company had no dilutive potential shares.

The computation of diluted earnings per share for the six months ended 31 March 2013 does not assume the exercise of the Company's warrants and share options because the exercise price was higher than the average market price.

**11. INTANGIBLE ASSETS**

	Mining rights HK\$'000	Distribution rights HK\$'000	Trademarks HK\$'000	Total HK\$'000
Carrying amount at 1 October 2013 (Audited)	118,818	26,013	48,466	193,297
Exchange realignment	(1,723)	(273)	945	(1,051)
Amortisation for the period	–	(6,258)	–	(6,258)
Carrying amount at 31 March 2014 (Unaudited)	117,095	19,482	49,411	185,988
Carrying amount at 1 April 2013 (Unaudited)	349,703	32,046	45,942	427,691
Exchange realignment	647	196	2,524	3,367
Amortisation for the period	–	(6,229)	–	(6,229)
Impairment loss recognised	(231,532)	–	–	(231,532)
Carrying amount at 30 September 2013 (Audited)	118,818	26,013	48,466	193,297

**12. EXPLORATION AND EVALUATION ASSETS**

	HK\$'000
<b>Exploration license</b>	
At 1 October 2013 (Audited)	2,046
Exchange realignment	(30)
<b>At 31 March 2014 (Unaudited)</b>	<b>2,016</b>
At 1 April 2013 (Unaudited)	105,479
Exchange realignment	545
Impairment loss recognised	(103,978)
<b>At 30 September 2013 (Audited)</b>	<b>2,046</b>

## 13. GOODWILL

HK\$'000

**Cost**

At 1 April 2013 (Unaudited), 30 September 2013 (Audited) and 31 March 2014 (Unaudited)	675,520
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**Accumulated impairment losses**

At 1 April 2013 (Unaudited)	20,830
Recognised for the period	571,192

At 30 September 2013 (Audited)	592,022
Recognised for the period	43,014

<b>At 31 March 2014 (Unaudited)</b>	<b>635,036</b>
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**Carrying amount**

<b>At 31 March 2014 (Unaudited)</b>	<b>40,484</b>
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At 30 September 2013 (Audited)	83,498
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For the purposes of impairment testing, goodwill set out above has been allocated to three (30 September 2013: three) individual cash generating units as at 31 March 2014. The carrying amounts of goodwill (net of accumulated losses) at the end of the reporting period allocated to these are as follows:

	<b>31 March 2014 HK\$'000 (Unaudited)</b>	30 September 2013 HK\$'000 (Audited)
Export	1,975	19,882
Domestic	38,509	63,616
Mining	–	–
	<b>40,484</b>	83,498



**13. GOODWILL** *(continued)***Export and domestic**

The recoverable amount of these cash-generating units was based on its value in use calculation using cash flow projections based on financial budgets approved by management covering the period of 5 years. Value in use in 31 March 2014 was determined in a similar manner as in 30 September 2013.

Key assumptions used in the calculation of value in use were discount rate, growth rate and budgeted revenue. The discount rate ranged from 21.4% to 23.97% (30 September 2013: 21.3% to 24.3%) was an after-tax measure based on the risk-free rate obtained from the yield on 10-year bonds issued by the government in the relevant market, adjusted for a risk premium to reflect specific risks relating to the cash-generating units. A growth rate ranging from 5% to 25% (30 September 2013: 5.0%–25%) was used. Cash flow, beyond the five-year were projected by using a steady growth rate of 3% (30 September 2013: 3.0%). Budgeted revenue has been based on past experience and future expectations in the light of anticipated economic and market conditions. Based on the valuation report by Grant Sherman Appraisal Limited, an impairment loss of approximately HK\$43,014,000 was recognised for the six months ended 31 March 2014 (year ended 30 September 2013: HK\$545,998,000), which was mainly due to momentous reverse in the luxury market for the period under review.

**14. TRADE RECEIVABLES**

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

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

	<b>At 31 March 2014 HK\$'000 (Unaudited)</b>	At 30 September 2013 HK\$'000 (Audited)
1–30 days	<b>34,762</b>	58,573
31–60 days	<b>28,893</b>	36,727
61–90 days	<b>20,742</b>	3,841
91–120 days	<b>43,586</b>	2,903
	<b>127,983</b>	102,044

**15. TRADE PAYABLES**

The Group normally obtains credit terms ranging from 30 to 180 days from its suppliers.

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

	<b>At 31 March 2014 HK\$'000 (Unaudited)</b>	At 30 September 2013 HK\$'000 (Audited)
1–30 days	33,523	53,424
31–60 days	15,594	1,862
61–90 days	2,654	1,126
91–120 days	8,327	12,587
	<b>60,098</b>	68,999

**16. SHARE CAPITAL**

	<b>Number of shares '000</b>	<b>Nominal value HK\$'000</b>
Authorised ordinary shares of HK\$0.01 each At 1 April 2012 (Unaudited) and 30 September 2013 (Audited) and 31 March 2014 (Unaudited)	10,000,000	100,000
Issued and fully paid: At 1 April 2012 (Unaudited) and 30 September 2013 (Audited) and 31 March 2014 (Unaudited)	4,366,027	43,660

**17. CONTINGENT LIABILITIES**

The Group did not have any significant contingent liabilities as at 31 March 2014 (30 September 2013: Nil).

**18. OPERATING LEASE ARRANGEMENTS**

The Group leases certain premises under operating lease arrangements. Leases are negotiated for a term ranging from three to five years. The Group does not have an option to purchase the leased assets at the expiry of the lease period. At the end of the reporting period, the Group's total future minimum lease payments under non-cancellable operating leases are as follows:

	<b>At 31 March 2014 HK\$'000 (Unaudited)</b>	At 30 September 2013 HK\$'000 (Audited)
Within 1 year	2,635	4,059
In 2 to 5 years, inclusive	245	1,291
	<b>2,880</b>	5,350

**19. RELATED PARTY AND CONTINUING CONNECTED TRANSACTIONS**

- (a) In addition to a related party balances detailed in the condensed consolidated financial statements and respective notes, the Group entered into the following significant transactions with related parties during the period, some of which are also deemed to be connected parties pursuant to the Listing Rules:

	<b>For the six month ended 31 March</b>	
	<b>2014</b>	2013
	<b>HK\$'000</b>	HK\$'000
	<b>(Unaudited)</b>	(Unaudited)
Sales of goods to Hengdeli Group	<b>11,914</b>	18,524
Consignment commission to Hengdeli Group	<b>1,066</b>	717

Notes:

On 27 September 2012, the Group and Hengdeli Holdings Limited and its associates ("Hengdeli Group") entered a cooperation agreement for the consignment and sale of goods in Hengdeli Group's stores. Hengdeli Group is the major shareholder of the Company. Details of the cooperation agreement can be found in the announcement of the Company dated 12 November 2012 and 5 October 2012.

The above transactions with the subsidiaries of Hengdeli Holdings Limited were in accordance with the terms of the cooperation agreement.

**(b) Key management compensation**

The key management personnel of the Group comprises the directors of the Company only. Details of compensation of directors are included in Note 6.

**20. EVENTS AFTER THE REPORTING PERIOD**

On 10 April 2014, the Company completed the open offer on the basis one offer share for every two shares held on the record date and 2,183,013,646 shares were issued. The net proceeds from the open offer was approximately HK\$172,100,000 and would be used as general working capital for the Group. Details of the results of the open offer are set out in the announcement of the Company dated 9 April 2014.

## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group's turnover for the six months ended 31 March 2014 decreased by 15.4% from approximately HK\$465.4 million last year to approximately HK\$393.9 million. The decrease was mainly attributable to the continuous downturn of luxury market in China. The Group's gross profit amounted to HK\$78.5 million, the gross profit margin declined to 19.9% (six months end 31 March 2013: 27.3%), the margin erosion was a result of price markdowns to stimulate the turnover in the challenging climate. Loss attributable to shareholders was approximately HK\$20.9 million, inclusive of impairment on goodwill of HK\$43.0 million. The impairment was mainly due to downward revision of financial projection, which was mainly based on historical result. The related sales and profit margin for the six months ended 31 March 2014 was poorer than it was forecasted. Starting with a lower actual revenue base for projection as at 31 Mar 2014, the revenue projection and hence resulting profit figures are adjusted downwards, resulting in reduction in overall valuation. Details of the key assumptions used in the calculation of goodwill are set out in Note 12.

During the period under review, revenue from domestic sales decreased by HK\$74.3 million, or 16.6%, from HK\$448.5 million for the six months ended 31 March 2013 to HK\$374.2 million for the six months ended 31 March 2014. The overall demand of the Group's fine jewellery and luxury watch items have continue to drop significantly since the second quarter of 2013 in the domestic market. Export sales increased 16.6% from HK\$16.9 million for the six months ended 31 March 2013 to HK\$19.7 million for the six months ended 31 March 2014, the increase was a result of aggressive price markdowns. Domestic sales continued to be the key revenue contributor, taking up 95% of total sales, while export sales accounted for the balance 5% as compared to 96.4% and 3.6%, respectively, during the same period last year.

During the period, the selling and distribution expenses of the Group decreased by 5.7% to approximately HK\$26.1 million, as compared to HK\$27.6 million from the corresponding period last year, which is in line with the decrease in domestic sales. The Group's administrative expenses maintained fairly stable at approximately HK\$17.1 million as compared to approximately HK\$17.6 million for the same period last year.

### BUSINESS REVIEW AND PROSPECTS

During the period under review, the Group's turnover for the six months ended 31 March 2014 decreased by 15.4% from approximately HK\$465.4 million last year to approximately HK\$393.9 million. The Group's performance was impacted by decelerated customer spending momentum in Mainland China together with the restrict government spending policy.

The Group recorded a loss of HK\$20.9 million for the six month ended 31 March 2014, which was suffered from the deteriorating luxury goods market environment and the impairment on the valuation of goodwill recognized arising from the momentous reverse in the luxury market in Mainland China.

## **MANAGEMENT DISCUSSION AND ANALYSIS** **(continued)**

### **BUSINESS REVIEW AND PROSPECTS** *(continued)*

For the gold mining business, the Group is in progress to reassess the production schedule in Chi Feng, which is due to (i) the Group spent additional time to review and negotiate the cost of the mining construction with the PRC mining company; (ii) Extra time spent in the construction in compliance with the various PRC safety regulations. As for the gold mines located in Chi Zhou City, the group will continue to carry out such work as necessary to obtain the exploitation license.

Going forward, the Group expects the China luxury goods market will continue to be challenging and severe in the coming year. The Group will consolidate current business and look for new opportunity to cope with existing market environment and constantly review the business strategy in a cautious manner.

### **LIQUIDITY AND FINANCIAL RESOURCES**

As at 31 March 2014, the bank balances and cash on hand of the Group amounted to HK\$112.4 million (30 September 2013: HK\$142.9 million). The Group's current assets and current liabilities were approximately HK\$1,936.6 million and HK\$269.2 million respectively (30 September 2013: current assets HK\$1,923.0 million; current liabilities HK\$277.3 million).

The Group's non-current assets amounted to approximately HK\$399.8 million (30 September 2013: HK\$451.4 million), representing a decrease of approximately HK\$51.6 million, which was mainly due to the impairment on goodwill and amortisation on the intangible assets.

The Group's inventory turnover, trade receivables turnover and trade payables turnover periods were 912 days, 59 days and 35 days, respectively. These turnover periods are consistent with the respective policies of the Group on credit terms granted to customers and credit terms obtained from suppliers.

During the period under review, the Group financed its operations and investing activities through a combination of operating cash inflows and interest bearing borrowings. The capital structure of the Company solely consists of share capital. As at 31 March 2014, shareholder equity in the Group amounted to HK\$1,959.1 million (30 September 2013: HK\$1,986.8 million).

The Group's total interest bearing bank borrowings as at 31 March 2014 amounted to approximately HK\$62.5 million (30 September 2013: HK\$55.6 million). The interest bearing bank borrowing were mainly used for working capital purpose and carried at commercial lending interest rates.

## 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, 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 2014, the total number of shares of HK\$0.01 each in the capital of the Company in issue was 4,366,027,293 and the capital and reserves attributable to the Company's equity holders amounted to HK\$1,959.1 million (30 September 2013: HK\$1,986.7 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 2013 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 2014, 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)	295,025,799	-	295,025,799	6.76%

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

Notes:

- (a) 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.
- (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, 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.

Save as disclosed above, as at 31 March 2014, 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 was adopted at an annual general meeting held on 1 March 2013 and unless otherwise cancelled or amended, will remain in force for 10 years from its date of adoption on 1 March 2013.

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 granted, cancelled or lapsed during the period.

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



## SUBSTANTIAL SHAREHOLDERS

As at 31 March 2014, 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
Shanghai International Group Co., Ltd.	2,183,013,646 (Notes (a) and (d))	50.0%
Equity Base Holdings Limited	295,025,799 (Notes (b) and (d))	6.76%
Hengdeli Holdings Limited	666,666,667 (Notes (c) and (d))	15.27%
Alpha Key Investments Limited	666,666,667 (Notes (c) and (d))	15.27%
Mr. Choy Shiu Tim	396,000,000 (Note (d))	9.07%

Notes:

- (a) These interests included 2,183,013,646 shares undertaken under the arrangement of the Open Offer. Shanghai International Group Co., Ltd. ceased to be interested in 2,183,013,646 shares on 7 April 2014 and the Open Offer was completed on 10 April 2014.

Details of the Open Offer have been disclosed in the announcements dated 26 February 2014 and 9 April 2014 and circular dated 19 March 2014 respectively.

- (b) 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.
- (c) Alpha Key Investments Limited is a controlled corporation of Hengdeli Holdings Limited which is deemed to be interested in the same parcel of shares.
- (d) All the interests stated above represent long positions in the shares of the Company.

Save as disclosed above, as at 31 March 2014, 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 2014, the Group had a staff roster of 198 (2013: 224). The remuneration of employees was in line with market trench and commensurate to the levels of pay in the industry and to the performance of individual employees that are regularly reviewed each 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**

None of the directors of the Company is aware of information that would reasonably indicate that the Company is not, or was not during the six months ended 31 March 2014 in compliance with the code provisions of the Corporate Governance Code (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") except the following deviations:

### **CODE PROVISION A.2.1**

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.

### **CODE PROVISION E.1.2**

The Chairman attended 2014 annual general meeting ("2014 AGM") to answer questions and collect views of shareholders. Though other directors were unable to attend 2014 AGM due to other business engagements, their representative, the company secretary and the auditors had attended the meeting to answer questions at the meeting.

## **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, 28 May 2014

*As at the date of this report, the Company's executive directors are Mr. Wong Chi Ming, Jeffry and Mr. Yu Fei, Philip and the independent non-executive directors are Mr. Jiang Chao, Mr. Tam Ping Kuen, Daniel and Ms. Chu Wai Fan.*

\* *For identification purpose only*