

REPORT OF THE DIRECTORS



The directors ("Directors") of Ming Fung Jewellery Group Limited ("Company") herein present their first report and the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 September 2002.

GROUP REORGANISATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability on 30 January 2002 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a reorganisation scheme ("Group Reorganisation") to rationalise the structure of the Group in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited ("Stock Exchange"), the Company became the holding company of the companies now comprising the Group on 12 August 2002. Further details of the Group Reorganisation, together with details of the subsidiaries acquired pursuant thereto, are set out in notes 1, 15 and 22 to the financial statements, and in the Company's prospectus ("Prospectus") dated 22 August 2002.

On 3 September 2002, the Company's shares were listed on the Stock Exchange.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries of the Company are set out in note 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

SEGMENT INFORMATION

An analysis of the Group's turnover and results by principal activity and geographical locations of customers for the year ended 30 September 2002 is set out in note 6 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 September 2002 and the state of affairs of the Company and of the Group as at that date are set out in the financial statements on pages 25 to 60.

The Directors do not recommend the payment of any dividend in respect of the year ended 30 September 2002.

REPORT OF THE DIRECTORS *(continued)*



SUMMARY OF FOUR YEARS' FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group for the four years ended 30 September 1999, 2000, 2001 and 2002, prepared on the bases set out in the note below:

Results

	Year ended 30 September			
	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	<u>267,158</u>	<u>195,684</u>	<u>146,420</u>	<u>111,403</u>
Profit from operating activities	<u>48,649</u>	<u>36,782</u>	<u>27,579</u>	<u>18,927</u>
Finance costs	<u>(532)</u>	<u>(523)</u>	<u>(706)</u>	<u>(589)</u>
Profit before tax	<u>48,117</u>	<u>36,259</u>	<u>26,873</u>	<u>18,338</u>
Tax	<u>(7,790)</u>	<u>(5,891)</u>	<u>(4,446)</u>	<u>(3,042)</u>
Net profit from ordinary activities attributable to shareholders	<u>40,327</u>	<u>30,368</u>	<u>22,427</u>	<u>15,296</u>

Assets And Liabilities

	At 30 September			
	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Non-current assets	<u>15,130</u>	<u>14,551</u>	<u>9,417</u>	<u>6,318</u>
Current assets	<u>169,752</u>	<u>67,253</u>	<u>45,812</u>	<u>28,927</u>
Total assets	<u>184,882</u>	<u>81,804</u>	<u>55,229</u>	<u>35,245</u>
Current liabilities	<u>63,812</u>	<u>39,411</u>	<u>29,033</u>	<u>21,327</u>
Non-current liabilities	<u>816</u>	<u>1,006</u>	<u>1,177</u>	<u>1,326</u>
Total liabilities	<u>64,628</u>	<u>40,417</u>	<u>30,210</u>	<u>22,653</u>
Net assets	<u>120,254</u>	<u>41,387</u>	<u>25,019</u>	<u>12,592</u>

Note: The summaries of the published consolidated/combined results of the Group for the three years ended 30 September 1999, 2000 and 2001, and of the assets and liabilities of the Group as at those dates have been extracted from the Prospectus. Such summaries were prepared from the audited financial statements of the companies now comprising the Group as if the current structure of the Group had been in existence throughout these financial years. The results of the Group for the year ended 30 September 2002 and the assets and liabilities of the Group as at 30 September 2002 are those set out in the financial statements on pages 25 and 26.

REPORT OF THE DIRECTORS *(continued)*



FIXED ASSETS

Details of movements in the Group's fixed assets during the year are set out in note 14 to the financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the period from 30 January 2002 (date of incorporation) to 30 September 2002, together with the reasons therefor, are set out in note 22 to the financial statements.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Other than in connection with the Company's initial public offering and the listing of the Company's shares on the Stock Exchange on 3 September 2002, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the period.

RESERVES

Details of movements in the reserves of the Company and of the Group during the period/year are set out in note 23 to the financial statements.

DISTRIBUTABLE RESERVES

As at 30 September 2002, the Company had distributable reserves of approximately HK\$113,709,000. Under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account of the Company of approximately HK\$109,777,000 as at 30 September 2002 is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for approximately 30% of the total sales for the year and the sales to the largest customer included therein amounted to approximately 9%.

Purchases from the Group's five largest suppliers accounted for approximately 36% of the total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 12%.

REPORT OF THE DIRECTORS *(continued)*



MAJOR CUSTOMERS AND SUPPLIERS *(continued)*

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

DIRECTORS

The Directors during the period from 30 January 2002 (date of incorporation) to 30 September 2002 were as follows:

Executive directors

Mr. Wong Chi Ming, Jeffry	(appointed on 28 February 2002)
Ms. Lui Ching Han, Magda	(appointed on 28 February 2002)
Mr. Chung Yuk Lun	(appointed on 28 February 2002)

Independent non-executive directors

Mr. Lee Pak Chung	(appointed on 12 August 2002)
Mr. Chen Nien Chong	(appointed on 12 August 2002)

Subsequent to the balance sheet date and on 22 January 2003, Mr. Chan Bing Kwong, Henry, was appointed as an independent non-executive Director.

In accordance with article 108A of the Company's articles of association, Ms. Lui Ching Han, Magda and Mr. Chung Yuk Lun will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 9 and 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for a term of three years commencing from 1 August 2002 (except for Mr. Chung Yuk Lun where his service contract has a term of one year), which continues thereafter until terminated by either party giving not less than three months' notice in writing to the other party.

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

REPORT OF THE DIRECTORS *(continued)*



DIRECTORS' INTERESTS IN CONTRACTS

Other than in connection with the Group Reorganisation in preparation for the Company's initial public offering, no Director had a significant beneficial interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year under review.

MANAGEMENT CONTRACTS

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

RELATED PARTY TRANSACTIONS

Details of the related party transactions for the year are set out in note 27 to the financial statements.

DIRECTORS' INTERESTS IN SHARES

As at 30 September 2002, the interests of the Directors in the share capital of the Company or its associated corporations, as recorded in the register maintained by the Company pursuant to section 29 of the Securities (Disclosure of Interests) Ordinance ("SDI Ordinance"), were as follows:

Director	Corporate interests	Number of ordinary shares			Total interests
		Personal interests	Family interests	Other interests	
Mr. Wong Chi Ming, Jeffry	416,000,000 (<i>Note</i>)	—	—	—	416,000,000

Note: These shares are held by Equity Base Holdings Limited, the entire issued share capital of which is beneficially owned by Mr. Wong Chi Ming, Jeffry.

Mr. Wong Chi Ming, Jeffry beneficially owns 800 shares of US\$1 each in Equity Base Holdings Limited, an associated corporation (within the meaning of the SDI Ordinance) of the Company, representing the entire issued shares in Equity Base Holdings Limited.

Save as disclosed above, none of the Directors or their associates had any personal, family, corporate or other interests in the equity securities of the Company or any of its associated corporations, as defined in the SDI Ordinance.

REPORT OF THE DIRECTORS *(continued)*



DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share option scheme" below, at no time during the year were the rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

SHARE OPTION SCHEME

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

As at the date of this annual report, the total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option scheme of the Group is 65,000,000, representing 10% of the issued share capital of the Company as at the date of this annual report. The maximum number of shares issuable upon exercise of the options which may be granted under the Share Option Scheme and any other share option scheme of the Group to each participant in any 12-month period shall not exceed 1% of the issued share capital of the Company for the time being. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

REPORT OF THE DIRECTORS *(continued)*



SHARE OPTION SCHEME *(continued)*

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

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

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

As at the date of this report, no share options have been offered and/or granted to any eligible participants under the Share Option Scheme.

The Directors consider it inappropriate to disclose the value of options which may be granted under the Share Option Scheme as if they had been granted as at the date of this report. Any such valuation will have to be made on the basis of certain option pricing model or other methodology, which depends on various assumptions including, the exercise price, the exercise period, interest rate, expected volatility and other variables. As no options have been granted, certain variables are not available for calculating the value of options. The Directors believe that any calculation of the value of options as at the date of this report based on a number of speculative assumptions would not be meaningful.

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

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SUBSTANTIAL SHAREHOLDERS

As at 30 September 2002, the following interests of 10% or more of the issued share capital of the Company were recorded in the register of interests in shares required to be kept by the Company pursuant to section 16(1) of the SDI Ordinance.

Name	Number of ordinary shares	Percentage of shareholding
Equity Base Holdings Limited <i>(Note)</i>	416,000,000 <i>(Note)</i>	64%

Note: Mr. Wong Chi Ming, Jeffry is the beneficial owner of the entire issued share capital in Equity Base Holdings Limited. Ms. Lui Ching Han, Magda, the spouse of Mr. Wong Chi Ming, Jeffry will be deemed to be interested in these shares by virtue of the SDI Ordinance.

Save as disclosed above, no person, other than the Directors, whose interests are set out above, had registered an interest in the share capital of the Company that was required to be recorded under section 16(1) of the SDI Ordinance.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 30 September 2002 are set out in notes 19 and 20 to the financial statements.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 4 to the financial statements on page 35.

CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice (the "Code") as set out in Appendix 14 of the Listing Rules, since the listing of the Company's shares on the Stock Exchange on 3 September 2002, except that the independent non-executive Directors are not appointed for specific terms as required by paragraph 7 of the Code, but are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company's articles of association.

REPORT OF THE DIRECTORS *(continued)*



AUDIT COMMITTEE

The Company has an audit committee which was established in accordance with the requirements of the Code, for the purposes of reviewing and providing supervision over the Group's financial reporting process and internal controls. Currently the audit committee comprises the three independent non-executive Directors.

AUDITORS

Albert Lam & Co. has been appointed as auditors of the Company by the board of directors ("Board") on 24 February 2003 to fill the casual vacancy arising from the resignation of Ernst & Young, the previous auditors of the Company. The financial statements of the Company for the year ended 30 September 2002 have been audited by Albert Lam & Co. A resolution to re-appoint Albert Lam & Co. as auditors of the Company has been proposed at the forthcoming annual general meeting.

On Behalf Of The Board

Wong Chi Ming, Jeffry
Chairman

Hong Kong
16 April 2003