NOTES TO THE FINANCIAL STATEMENTS

1. GROUP REORGANISATION

Ming Fung Jewellery Group Limited ("Company") was incorporated in the Cayman Islands as an exempted company with limited liability on 30 January 2002 under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. 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") on 3 September 2002, the Company became the holding company of the companies now comprising the Group on 12 August 2002. This was accomplished by the Company acquiring the entire issued share capital of Ming Fung Investment Holdings Limited ("Ming Fung Investment"), the then holding company of the other subsidiaries, as set out in note 15 to the financial statements in consideration for the allotment and issue of the Company's shares, credited as fully paid, to the former shareholders of Ming Fung Investment. Further details of the Group Reorganisation and the subsidiaries acquired pursuant thereto are set out in notes 15 and 22 to the financial statements and in the Company's prospectus dated 22 August 2002.

2. CORPORATE INFORMATION

The principal place of business of the Company is located at Room 1825, 18th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries 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.

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs")

The following recently revised and new SSAPs and related Interpretations are effective for the first time in the preparation of the current year's financial statements:

- SSAP 2.109 (Revised): Events after the balance sheet date
- SSAP 2.118 (Revised): Revenue
- SSAP 2.126: Segment reporting
- SSAP 2.128: Provisions, contingent liabilities and contingent assets
- SSAP 2.129: Intangible assets
- SSAP 2.130: Business combinations
- SSAP 2.131: Impairment of assets
- SSAP 2.132: Consolidated financial statements and accounting for investments in subsidiaries
- Interpretation 12: Business combinations – subsequent adjustment of fair values and goodwill initially reported
- Interpretation 13: Goodwill – continuing requirements for goodwill and negative goodwill previously eliminated against/credited to reserves

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

These SSAPs prescribe new accounting measurement and disclosure practices. The major effects on the Group's accounting policies and on the amounts disclosed in these financial statements of adopting these SSAPs and related Interpretations are summarised as follows:

SSAP 2.109 (Revised) prescribes which type of events occurring after the balance sheet date require adjustment to the financial statements, and which require disclosure, but no adjustment. Its principal impact on these financial statements is that the proposed final dividend which is not declared and approved until after the balance sheet date, is no longer recognised as a liability at the balance sheet date, but is disclosed as an allocation of retained profits on a separate line within the capital and reserves section of the balance sheet. The adoption of SSAP 2.109 (Revised) has had no major impact on these financial statements.

SSAP 2.118 (Revised) prescribes the recognition of revenue and was revised as a consequence of the revision to SSAP 2.109 (Revised) described above. Proposed final dividends from subsidiaries that are declared and approved by the subsidiaries after the balance sheet date are no longer recognised in the Company's own financial statements for the year. The adoption of SSAP 2.118 (Revised) has had no major impact on these financial statements.

SSAP 2.126 prescribes the principles to be applied for reporting financial information by segment. It requires that management assesses whether the Group's predominant risks or returns are based on business segments or geographical segments and determines one of these bases to be the primary segment information reporting format, with the other as the secondary segment information reporting format. The impact of this SSAP 2.126 is the inclusion of significant additional segment reporting disclosures which are set out in note 6 to the financial statements.

SSAP 2.128 prescribes the recognition criteria and measurement bases to apply to provisions, contingent liabilities and contingent assets, together with the required disclosures in respect thereof. The adoption of SSAP 2.128 has had no major impact on these financial statements.

SSAP 2.129 prescribes the recognition and measurement criteria for intangible assets, together with the disclosure requirements. The adoption of SSAP 2.129 has had no major impact on these financial statements.

3. IMPACT OF REVISED AND NEW HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE ("SSAPs") *(continued)*

SSAP 2.130 prescribes the accounting treatment for business combinations, including the determination of the date of acquisition, the method for determining the fair values of the assets and liabilities acquired, and the treatment of goodwill or negative goodwill arising on acquisition. SSAP 2.130 requires the disclosure of goodwill in the non-current assets section of the consolidated balance sheet. It requires that goodwill is amortised to the consolidated income statement over its estimated useful life. In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 2.130 that permits goodwill on acquisitions which occurred prior to the Group's accounting period beginning from 1 October 2001, to remain eliminated against consolidated reserves. Interpretation 13 prescribes the application of SSAP 2.130 to goodwill arising from acquisitions in previous years which remains eliminated against consolidated reserves. The adoption of SSAP 2.130 has not resulted in a prior year adjustment. The required new additional disclosures are included in note 23 to the financial statements.

SSAP 2.131 prescribes the recognition and measurement criteria for impairments of assets. The adoption of SSAP 2.131 has had no major impact on these financial statements.

SSAP 2.132 prescribes the accounting treatment and disclosures for the preparation and presentation of consolidated financial statements. The adoption of SSAP 2.132 has had no major impact on these financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with all applicable SSAPs and Interpretations issued by the Hong Kong Society of Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. The Group has early adopted SSAP2.101 (Revised) in relation to the inclusion of consolidated statement of changes in equity. They have been prepared under the historical cost convention.

Basis of presentation and consolidation

The Group Reorganisation involved companies under common control. The consolidated financial statements have been prepared using the merger basis of accounting as a result of the Group Reorganisation completed on 12 August 2002. Under this basis, the Company has been treated as the holding company of its subsidiaries for the financial years presented, rather than from the date of its acquisition of the subsidiaries. Accordingly, the consolidated results of the Group for the two years ended 30 September 2002 and 2001 include the results of the Company and its subsidiaries with effect from 1 October 2000 or since their respective dates of incorporation/establishment, whichever is a shorter period. The comparative consolidated balance sheet as at 30 September 2001 has been prepared on the basis that the existing Group had been in place at that date.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of presentation and consolidation *(continued)*

In the opinion of the directors of the Company, the consolidated financial statements prepared on the above basis present a more fairly view of the results and the state of affairs of the Group as a whole.

All significant intercompany transactions and balances within the Group have been eliminated in the preparation of the consolidated financial statements.

Comparative amounts have not been presented for the Company's balance sheet as the Company did not exist as at 30 September 2001.

Revenue recognition

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) on the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

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

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under the operating leases are charged to the income statement on the straight-line basis over the lease terms.

Goodwill

Goodwill arising on the acquisition of subsidiaries represents the excess of the cost of the acquisition over the Group's share of the fair values of the identifiable assets and liabilities acquired as at the date of acquisition.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset and amortised on the straight-line basis over its estimated useful life.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Goodwill *(continued)*

In prior years, goodwill arising on acquisitions was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of SSAP 2.130 that permits goodwill on acquisitions which occurred prior to the Group's accounting period beginning from 1 October 2001, to remain eliminated against consolidated reserves. Goodwill on subsequent acquisitions is treated according to the new accounting policy above.

On disposal of subsidiaries, the gain or loss on disposal is calculated by reference to the net assets at the date of disposal, including the attributable amount of goodwill which remains unamortised and any relevant reserves, as appropriate. Any attributable goodwill previously eliminated against consolidated reserves at the time of acquisition is written back and included in the calculation of the gain or loss on disposal.

The carrying amount of goodwill, including goodwill remaining eliminated against consolidated reserves, is reviewed annually and written down for impairment when it is considered necessary. A previously recognised impairment loss for goodwill is not reversed unless the impairment loss was caused by a specific external event of an exceptional nature that was not expected to recur, and subsequent external events have occurred which have reversed the effect of that event.

Retirement benefits scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme ("MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. Contributions are made based on a percentage of the employees' basic salaries and are charged to the income statement as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

Prior to 1 December 2000, the Group operated a defined contribution retirement benefits scheme for those employees who were eligible and had elected to participate in the scheme. The assets of the scheme were held separately from those of the Group in an independently administered fund. Contributions were made based on a percentage of the eligible employees' salaries and were charged to the income statement as they become payable in accordance with the rules of the scheme. When an employee left the scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions. The defined contribution retirement benefits scheme was terminated on 30 November 2000.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Research and development costs

All research costs are charged to the income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the projects are clearly defined; the expenditure is separately identifiable and can be measured reliably; there is reasonable certainty that the projects are technically feasible; and the products have commercial value. Product development expenditure which does not meet these criteria is expensed when incurred.

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the capital and reserves section of the balance sheet, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

In the previous year, the Company and its subsidiaries did not propose or pay any final dividends to shareholders. The revised accounting treatments for dividends resulting from the adoption of SSAP 2.109 (Revised) and SSAP 2.118 (Revised), have therefore not given rise to any prior year adjustments in either the Group's or the Company's financial statements.

Impairment of assets

An assessment is made at each balance sheet date of whether there is any indication of impairment of any asset, or whether there is any indication that an impairment loss previously recognised for an asset in prior years may no longer exist or may have decreased. If any such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of assets *(continued)*

A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation), had no impairment loss been recognised for the asset in prior years.

A reversal of an impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, when the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Fixed assets and depreciation

Fixed assets are stated at cost less accumulated depreciation and any impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

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

Plant and machinery	15%
Furniture, fixtures and office equipment	15%
Motor vehicles	15%

The gain or loss on disposal or retirement of a fixed asset recognised in the income statement is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Subsidiaries

A subsidiary is a company whose financial and operating policies are controlled by the Company, directly or indirectly, so as to obtain benefits from its activities.

The Company's investments in subsidiaries are stated at cost less any impairment losses.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

4. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value after allowances for obsolete or slow-moving items. Cost is calculated using the first-in, first-out basis and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Deferred taxation

Deferred taxation is provided using the liability method in respect of the taxation effect arising from all material timing differences between the accounting and tax treatment of income and expenditure, which are expected with reasonable probability to crystallise in the foreseeable future. A deferred tax asset is not recognised until its realisation is assured beyond reasonable doubt.

Foreign currencies

Foreign currency transactions during the year are translated into Hong Kong dollars at the applicable rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Hong Kong dollars at exchange rates ruling as at the balance sheet date. Exchange differences are dealt with in the income statement.

On consolidation, the financial statements of overseas subsidiaries are translated into Hong Kong dollars at the applicable rates of exchange ruling as at the balance sheet date. The resulting translation differences are included in the exchange fluctuation reserve.

Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

Cash equivalents

For the purpose of the consolidated cash flow statement, cash equivalents represent short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advance. For the purpose of balance sheet classification, cash equivalents represent assets similar in nature to cash, which are not restricted as to use.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

5. TURNOVER

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts, and after eliminations of all significant intra-Group transactions during the year.

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

	2002	2001
	HK$'000	*HK$'000*
Turnover – sale of goods	**267,158**	195,684
Other revenue:		
Interest income	**187**	77
Others	**220**	362
	407	439
Gains:		
Gain on disposal of fixed assets	**126**	–
	533	439
	267,691	196,123

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

6. SEGMENT INFORMATION

SSAP 2.126 was adopted during the year, as detailed in note 3 to the financial statements. Segment information is presented by way of two segment formats: (i) on a primary segment reporting basis, by geographical segment; and (ii) on a secondary segment reporting basis, by business segment.

The principal activity of the Group is the manufacture and sale of jewellery products, which is managed according to the geographical location of customers.

Each of the Group's geographical segments, based on the location of customers, represents a strategic business unit that offers products to customers located in different geographical areas which are subject to risks and returns that are different from those of other geographical segments. The Group's geographical segments are as follows:

(i) United States of America;

(ii) Europe; and

(iii) Middle East and South East Asia.

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2002

6. SEGMENT INFORMATION *(continued)*

(a) Geographical segments based on the location of customers

The following tables present revenue, results and certain asset, liability and expenditure information for the Group's geographical segments for the years ended 30 September 2002 and 2001.

	United States of America		Europe		Middle East and South East Asia		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**153,130**	116,828	**83,614**	57,739	**30,414**	21,117	**267,158**	195,684
Segment results	**27,154**	21,330	**16,294**	11,403	**4,810**	3,652	**48,258**	36,385
Unallocated revenue							**533**	439
Unallocated expenses							**(142)**	(42)
Profit from operating activities							**48,649**	36,782
Finance costs							**(532)**	(523)
Profit before tax							**48,117**	36,259
Tax							**(7,790)**	(5,891)
Net profit from ordinary activities attributable to shareholders							**40,327**	30,368

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2002

6. SEGMENT INFORMATION *(continued)*

(a) Geographical segments based on the location of customers *(continued)*

	United States of America		Europe		Middle East and South East Asia		Unallocated		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**60,480**	46,993	**33,023**	23,225	**12,012**	8,495	**–**	–	**105,515**	78,713
Unallocated assets	**–**	–	**–**	–	**–**	–	**79,367**	3,091	**79,367**	3,091
Total assets	**60,480**	46,993	**33,023**	23,225	**12,012**	8,495	**79,367**	3,091	**184,882**	81,804
Segment liabilities	**15,368**	12,504	**8,391**	6,180	**3,053**	2,261	**–**	–	**26,812**	20,945
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**37,816**	19,472	**37,816**	19,472
Total liabilities	**15,368**	12,504	**8,391**	6,180	**3,053**	2,261	**37,816**	19,472	**64,628**	40,417
Other segment information:										
Depreciation	**1,334**	1,533	**729**	757	**265**	277	**–**	–	**2,328**	2,567
Capital expenditure	**2,454**	4,598	**1,340**	2,272	**487**	831	**–**	–	**4,281**	7,701

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2002

6. SEGMENT INFORMATION *(continued)*

(b) Geographical segments based on the location of assets

	Hong Kong		Macau		PRC		Consolidated	
	2002	2001	**2002**	2001	**2002**	2001	**2002**	2001
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**88,776**	12,262	**80,473**	56,596	**15,633**	12,946	**184,882**	81,804
Capital expenditure	**131**	875	**–**	–	**4,150**	6,826	**4,281**	7,701

(c) Business segments

All of the revenue and assets of the Group are derived from the manufacture and sale of jewellery products.

7. PROFIT FROM OPERATING ACTIVITIES

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

	2002	2001
	HK$'000	*HK$'000*
Cost of inventories sold	**186,721**	136,104
Depreciation	**2,328**	2,567
Minimum lease payments under operating leases on leasehold land and buildings	**312**	348
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	**6,663**	5,728
Retirement benefits scheme contributions	**95**	38
	6,758	5,766
Auditors' remuneration	**380**	1,000
Research and development costs expensed for the year	**3,739**	2,829
Gain on disposal of fixed assets	**(126)**	–
Interest income	**(187)**	(77)

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Details of the remuneration of the directors of the Company for the year disclosed pursuant to the Rules Governing the Listing of Securities on the Stock Exchange and section 161 of the Hong Kong Companies Ordinance are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Fees:		
Executive directors	**–**	–
Independent non-executive directors	**28**	–
	28	–
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	**2,075**	1,611
Independent non-executive directors	**–**	–
	2,075	1,611
Retirement benefits scheme contributions:		
Executive directors	**42**	11
Independent non-executive directors	**–**	–
	42	11
	2,145	1,622

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2002

8. DIRECTORS' REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES *(continued)*

Fees include approximately HK$28,000 *(2001: Nil)* payable to the independent non-executive directors of the Company. There were no other emoluments payable to the independent non-executive directors of the Company during the year *(2001: Nil)*.

The number of directors of the Company whose remuneration fell within the following band is as follows:

	Group	
	2002	2001
	Number of directors	Number of directors
Nil - HK$1,000,000	**5**	5

There was no arrangement under which a director waived or agreed to waive any remuneration during the year.

During the year, no emoluments were paid by the Group to the directors as an inducement to join, or upon joining the Group, or as compensation for loss of office.

The five highest paid employees during the year included two *(2001: two)* directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining three *(2001: three)* non-director, highest paid employees, whose remuneration fell within the Nil to HK$1,000,000 band, are as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**882**	504
Retirement benefits scheme contributions	**36**	20
	918	524

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

9. FINANCE COSTS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interest on bank overdrafts and trust receipt loans wholly repayable within five years	**467**	362
Interest on bank loans wholly repayable beyond five years	**65**	89
Interest on other loans wholly repayable within five years	**–**	72
	532	523

10. TAX

	Group	
	2002	2001
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong	**–**	42
Macau	**7,790**	5,849
Tax charge for the year	**7,790**	5,891

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 year. Hong Kong profits tax has been provided at the rate of 16% on the estimated assessable profits arising in Hong Kong for the year ended 30 September 2001. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates, based on existing legislation, interpretations and practices in respect thereof.

Macau complementary tax has been calculated at the rate of 15.75% *(2001: 15.75%)* on the estimated assessable profits of Brilliant Jewellery Trading Limited, a wholly-owned subsidiary of the Company, in respect of the year.

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax liabilities in respect of the year *(2001: Nil)*.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

11. NET PROFIT FROM ORDINARY ACTIVITIES ATTRIBUTABLE TO SHAREHOLDERS

The net profit from ordinary activities attributable to shareholders dealt with in the financial statements of the Company for the period from 30 January 2002 (date of incorporation) to 30 September 2002 was approximately HK$3,932,000.

12. DIVIDENDS

	Group	
	2002	2001
	HK$'000	*HK$'000*
Interim	**–**	14,000

The interim dividends declared and paid for the year ended 30 September 2001 were paid by a subsidiary of the Company to its then shareholders prior to the Group Reorganisation, as set out in note 1 to the financial statements. No final dividend was proposed for the year ended 30 September 2002 *(2001: Nil)*.

13. EARNINGS PER SHARE

The calculation of basic earnings per share is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$40,327,000 *(2001: HK$30,368,000)* and the pro forma weighted average number of 531,397,260 *(2001: 520,000,000)* ordinary shares in issue during the year.

The weighted average number of ordinary shares used to calculate the earnings per share for the year ended 30 September 2001 includes the pro forma issued share capital of the Company, comprising 10,000,000 ordinary shares issued nil paid on 28 February 2002 and sub-divided, 10,000,000 ordinary shares issued for the acquisition of the entire issued share capital of Ming Fung Investment and the capitalisation issue of 500,000,000 ordinary shares, as further detailed in note 22 to the financial statements. The weighted average number of ordinary shares used to calculate the earnings per share for the year ended 30 September 2002 includes the additional 130,000,000 ordinary shares issued upon the listing of the Company's shares on the Stock Exchange on 3 September 2002.

There were no potential dilutive ordinary shares in existence for the years ended 30 September 2002 and 2001 and, accordingly, no diluted earnings per share amounts have been presented for either of the two years.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2002

14. FIXED ASSETS

Group

	Plant and machinery *HK'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
Cost:				
At 1 October 2001	17,944	2,448	298	20,690
Additions	4,150	131	–	4,281
Disposals	(2,071)	–	–	(2,071)
At 30 September 2002	**20,023**	**2,579**	**298**	**22,900**
Accumulated depreciation:				
At 1 October 2001	4,998	918	223	6,139
Provided during the year	2,089	228	11	2,328
Written back on disposals	(697)	–	–	(697)
At 30 September 2002	**6,390**	**1,146**	**234**	**7,770**
Net book value:				
At 30 September 2002	**13,633**	**1,433**	**64**	**15,130**
At 30 September 2001	12,946	1,530	75	14,551

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15. INVESTMENT IN SUBSIDIARIES

	Company **2002** ***HK$'000***
Unlisted shares, at cost	77,737

The balances with subsidiaries included in the Company's current assets and liabilities are unsecured, interest-free and have no fixed terms of repayment.

Particulars of the subsidiaries are as follows:

Name	**Place of incorporation/ establishment and operations***	**Paid-up share/ registered capital**	**Percentage of equity attributable to the Company**	**Principal activities**
Directly held				
Ming Fung Investment	British Virgin Islands ("BVI")	Ordinary US$1,000	100%	Investment holding
Indirectly held				
Brilliant Jewellery Trading Limited	BVI/Macau	Ordinary US$1,000	100%	Distribution of jewellery products
Jeda International Services Limited	BVI/Israel, India and Belgium	Ordinary US$1,000	100%	Provision of procurement services
Magfrey Company Limited	Hong Kong	Ordinary HK$1,000,000	100%	Trading of diamonds and gemstones
Mass Base Co., Ltd.	BVI/Hong Kong	Ordinary US$1,000	100%	Provision of administrative services
On Line Jewellery Manufacturer Company Limited	Hong Kong	Ordinary HK$1,000,000	100%	Manufacture and sale of jewellery products

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

15. INVESTMENT IN SUBSIDIARIES *(continued)*

Name	Place of incorporation/ establishment and operations*	Paid-up share/ registered capital	Percentage of equity attributable to the Company	Principal activities
Indirectly held *(continued)*				
On Line Pacific Services Limited	BVI/People's Republic of China ("PRC")	Ordinary US$1,000	100%	Provision of quality control services
Pacific Worldwide Marketing Services Limited	BVI/United States of America, Europe, Middle East and South East Asia	Ordinary US$1,000	100%	Provision of marketing services
¶¶…w¥«§Y„Ffl]˜_“ ƒ ƒ‡››/‰¥q	PRC	HK$2,000,000**	100%	Dormant

* *Where the place of operations is different from its place of incorporation/establishment.*

** *¶¶…w¥«§Y„Ffl]˜_“ ƒ ƒ‡››/‰¥q is a wholly foreign-owned enterprise established in the PRC for an operating period of 11 years commencing from its date of establishment on 23 September 2002. The registered capital of ¶¶…w¥«§Y„Ffl]˜_“ ƒ ƒ‡››/‰¥q of HK$2,000,000 has been fully paid up by the Group.*

16. INVENTORIES

	Group	
	2002	2001
	HK$'000	*HK$'000*
Raw materials	**15,652**	10,657
Finished goods	**19,835**	13,660
	35,487	24,317

None of the inventories were stated at net realisable value as at 30 September 2002 *(2001: Nil)*.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

17. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days. 100% provision is made for outstanding debts aged over 365 days.

An aging analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
1 - 30 days	**34,766**	15,895
31 - 60 days	**13,721**	12,581
61 - 90 days	**2,746**	7,529
	51,233	36,005

18. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSIT

	Group		Company
	2002	2001	**2002**
	HK$'000	*HK$'000*	***HK$'000***
Cash and bank balances	**12,343**	2,341	**6,754**
Bank deposits	**67,007**	750	**9,251**
	79,350	3,091	**16,005**
Less: Pledged bank deposit for banking facilities – note 20	**(758)**	(750)	**–**
Cash and cash equivalents	**78,592**	2,341	**16,005**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

19. INTEREST-BEARING BANK BORROWINGS, SECURED

		Group	
		2002	2001
	Note	***HK$'000***	*HK$'000*
Bank overdrafts, secured	*20*	**5,910**	2,600
Trust receipt loans, secured	*20*	**4,075**	1,500
Bank loans, secured and repayable:	*20*		
Within one year		**5,056**	171
In the second year		**196**	183
In the third to fifth years, inclusive		**620**	626
Beyond five years		**–**	197
		15,857	5,277
Portion classified as current liabilities		**(15,041)**	(4,271)
Long term portion		**816**	1,006

20. BANKING FACILITIES

At 30 September 2002, the Group's banking facilities were secured by the following:

(i) a fixed deposit of approximately HK$758,000 of the Group – note 18;

(ii) corporate guarantees given by the Company and a subsidiary of the Company;

(iii) fixed deposits owned by certain directors of the Company and an independent third party;

(iv) fixed charges on the leasehold land and buildings owned by certain directors of the Company; and

(v) joint and several personal guarantees given by certain directors of the Company.

Subsequent to the balance sheet date, the fixed deposits owned by certain directors of the Company and an independent third party, the fixed charges on the leasehold land and buildings owned by certain directors of the Company, and the joint and several personal guarantees given by certain directors of the Company were released and replaced by the corporate guarantees from the Company and certain subsidiaries of the Company.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

21. TRADE PAYABLES

The Group normally obtains credit terms ranging from 30 to 90 days from its suppliers.

An aging analysis of the trade payables as at the balance sheet date, based on the date of receipt of goods purchased, is as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
1 – 30 days	**16,452**	10,083
31 – 60 days	**6,708**	5,855
61 – 90 days	**1,184**	2,549
	24,344	18,487

22. SHARE CAPITAL

Shares

	2002
	HK$'000
Authorised:	
2,000,000,000 ordinary shares of HK$0.01 each	**20,000**
Issued and fully paid:	
650,000,000 ordinary shares of HK$0.01 each	**6,500**

The following changes in the Company's authorised and issued share capital took place during the period from 30 January 2002 (date of incorporation) to 30 September 2002:

(i) On the date of incorporation, the authorised share capital of the Company was HK$100,000 divided into 1,000,000 ordinary shares of HK$0.10 each, all of which were allotted and issued nil paid on 28 February 2002.

(ii) On 10 July 2002, each of the then issued ordinary shares in the share capital of the Company, having a par value of HK$0.10 each, was sub-divided into ten ordinary shares of HK$0.01 each.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22. SHARE CAPITAL *(continued)*

Shares *(continued)*

(iii) On 12 August 2002, the authorised share capital of the Company was increased to HK$200,000 by the creation of a further 10,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the then existing share capital of the Company.

(iv) On 12 August 2002, as part of the Group Reorganisation, the Company issued an aggregate of 10,000,000 ordinary shares of HK$0.01 each credited as fully paid in consideration for the acquisition of the entire issued share capital of Ming Fung Investment. The excess of the fair value of the ordinary shares of Ming Fung Investment, determined on the basis of its consolidated net assets at that date, over the nominal value of the Company's ordinary shares issued and credited as fully paid in exchange therefor, amounting to HK$77,637,000, was credited to the Company's share premium account as set out in note 23 to the financial statements.

(v) On 12 August 2002, an amount of HK$100,000, being a portion of the amount credited to the share premium account of the Company on the issue of ordinary shares in exchange for the ordinary shares of Ming Fung Investment as set out in (iv) above, was applied to pay up, in full at par value, the 10,000,000 sub-divided ordinary shares issued and allotted nil paid on 28 February 2002.

(vi) On 12 August 2002, the authorised share capital of the Company was increased from HK$200,000 to HK$20,000,000 by the creation of a further 1,980,000,000 ordinary shares of HK$0.01 each, ranking pari passu with the then existing share capital of the Company.

(vii) On 12 August 2002, a total of 500,000,000 ordinary shares of HK$0.01 each were allotted and issued as fully paid at par to the holders of the ordinary shares whose names appeared on the register of members of the Company at that date, in proportion to their respective shareholdings, by way of the capitalisation of the sum of HK$5,000,000 standing to the credit of the share premium account of the Company ("Capitalisation Issue"), conditional on the share premium account being credited as a result of the issue of new ordinary shares to the public on 3 September 2002 as detailed in (viii) below.

(viii) On 3 September 2002, a total of 130,000,000 ordinary shares of HK$0.01 each were issued at HK$0.36 ("New Issue") each to the public for a total cash consideration, before the related share issue expenses, of HK$46,800,000.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

22. SHARE CAPITAL *(continued)*

Shares *(continued)*

A summary of the above movements in the issued share capital of the Company is as follows:

	Notes	**Number of shares issued** *'000*	**Nominal value of shares issued** *HK$'000*
Shares allotted and issued nil paid on 28 February 2002	*(i)*	1,000	–
Sub-division of each of the shares of the Company into ten shares	*(ii)*	10,000	–
Shares issued as consideration for the acquisition of the entire issued share capital of Ming Fung Investment pursuant to the Group Reorganisation	*(iv)*	10,000	100
Application of share premium account to pay up nil paid shares issued on 28 February 2002	*(v)*	–	100
Pro forma share capital as at 30 September 2001		20,000	200
Capitalisation Issue credited as fully paid conditional on the share premium account of the Company being credited as a result of the New Issue	*(vii)*	500,000	5,000
New Issue	*(viii)*	130,000	1,300
Share capital as at 30 September 2002		650,000	6,500

Share options

The Company operates a share option scheme, further details of which are set out under the heading "Share option scheme" in the Report of the Directors on pages 20 and 21.

Up to 30 September 2002, no share options had been granted under the share option scheme.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2002

23. RESERVES

	Share premium *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Group			
At 1 October 2000	–	24,819	24,819
Net profit for the year	–	30,368	30,368
Interim dividend – note 12	–	(14,000)	(14,000)
At 30 September 2001 and 1 October 2001	–	41,187	41,187
New Issue – note 22	45,500	–	45,500
Capitalisation Issue – note 22	(5,000)	–	(5,000)
Share issue expenses	(8,260)	–	(8,260)
Net profit for the year	–	40,327	40,327
At 30 September 2002	**32,240**	**81,514**	**113,754**

The amount of goodwill, arising from the acquisition of subsidiaries prior to the Group's accounting period beginning 1 October 2001 and remained eliminated against retained profits as at 30 September 2002, was approximately HK$276,000. The goodwill was stated at its cost.

	Share premium *HK$'000*	Retained profits *HK$'000*	Total *HK$'000*
Company			
Arising on acquisition of Ming Fung Investment and applied in payment of 10,000,000 ordinary shares allotted nil paid on 28 February 2002	77,537	–	77,537
New Issue – note 22	45,500	–	45,500
Capitalisation Issue – note 22	(5,000)	–	(5,000)
Share issue expenses	(8,260)	–	(8,260)
Net profit for the period – note 11	–	3,932	3,932
At 30 September 2002	**109,777**	**3,932**	**113,709**

23. RESERVES *(continued)*

The share premium account of the Group includes: (i) the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 22 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; less (iii) the premium arising from the Capitalisation Issue during the year.

The share premium account of the Company includes: (i) the difference between the then combined net asset value of the subsidiaries acquired pursuant to the Group Reorganisation, as set out in notes 1 and 22 to the financial statements, over the nominal value of the share capital of the Company issued in exchange therefor; (ii) the premium arising from the New Issue during the year; less (iii) the premium arising from the Capitalisation Issue during the year.

In accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, the share premium account is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2002

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit from operating activities to net cash inflow from operating activities

	2002	2001
	HK$'000	*HK$'000*
Profit from operating activities	**48,649**	36,782
Interest income	**(187)**	(77)
Gain on disposal of fixed assets	**(126)**	–
Depreciation	**2,328**	2,567
Decrease/(increase) in prepayments, deposits and other receivables	**158**	(1,220)
Increase in inventories	**(11,170)**	(6,960)
Increase in trade receivables	**(15,228)**	(10,830)
Increase in pledged bank deposit	**(8)**	(750)
Increase in trade payables	**5,857**	4,407
Increase in other payables and accruals	**30**	690
Net cash inflow from operating activities	**30,303**	24,609

(b) Analysis of changes in financing activities during the year

	Bank loans, secured	**Other loan**	**Issued capital and share premium**
	HK$'000	*HK$'000*	*HK$'000*
At 1 October 2000	1,326	1,200	200
Cash outflow from financing activities, net	(149)	(1,200)	–
At 30 September 2001 and 1 October 2001	1,177	–	200
Cash inflow from financing activities, net	4,695	–	38,540
At 30 September 2002	**5,872**	**–**	**38,740**

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT *(continued)*

(c) Major non-cash transaction

The Group Reorganisation in preparation for the public listing of the Company's shares involved the acquisition of Ming Fung Investment by the issue of ordinary shares of the Company, further details of which are set out in notes 1 and 22 to the financial statements.

25. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date *(2001: Nil)*.

The Company has given guarantees in favour of certain banks to the extent of HK$13,500,000 in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2002, the banking facilities utilised by these subsidiaries amounted to approximately HK$9,910,000.

26. OPERATING LEASE ARRANGEMENTS

The Group leases certain of its leasehold land and buildings under operating lease arrangements. The original lease terms for these leasehold land and buildings range from 1 to 3 years.

As at 30 September 2002, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2002	2001
	HK$'000	*HK$'000*
Within one year	**299**	312
In the second to fifth years, inclusive	**–**	143
	299	455

The Company did not have any operating lease arrangements as at 30 September 2002.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

27. RELATED PARTY TRANSACTIONS

During the year, the Group had the following transactions with related parties:

(a) fixed deposits owned by Mr. Wong Chi Ming, Jeffry ("Mr. Wong") and Ms. Lui Ching Han, Magda ("Ms. Lui"), the executive directors of the Company, were pledged to secure banking facilities granted to the Group at nil consideration;

(b) fixed charges on the leasehold land and buildings owned by Mr. Wong and Ms. Lui, the executive directors of the Company, to secure banking facilities granted to the Group at nil consideration; and

(c) Mr. Wong and Ms. Lui, the executive directors of the Company, provided joint and several personal guarantees for banking facilities granted to the Group at nil consideration.

Subsequent to the balance sheet date, the joint and several personal guarantees and securities provided by Mr. Wong and Ms. Lui, as set out in notes (a) to (c) above, were released and replaced by the corporate guarantees from the Company and certain subsidiaries of the Company.

28. ULTIMATE HOLDING COMPANY

The directors of the Company consider that the ultimate holding company of the Company as at 30 September 2002 was Equity Base Holdings Limited, which was incorporated in the British Virgin Islands.

29. COMPARATIVE FIGURES

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

30. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 16 April 2003.