

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the "Board") of Ming Fung Jewellery Group Limited (the "Company") and its subsidiaries (collectively, the "Group"), I am pleased to present the annual report of the Group for the year ended 30 September 2003.

FINANCIAL PERFORMANCE

For the year ended 30 September 2003, the Group recorded a turnover of approximately HK\$259.6 million, representing a decrease of approximately 2.8% as compared to approximately HK\$267.2 million in previous year. Net profit from ordinary activities attributable to shareholders was approximately HK\$31.8 million, representing a decrease of 21.1% over the previous year. Gross profit margin remained fairly stable at approximately 30.3%, while net profit margin was approximately 12.3% compared to that of 15.1% last year.

BUSINESS REVIEW

The year 2003 was a challenging year faced by the Group and its management in doing business under the worsening economic climate. During the year under review, the global economic sentiment remained sluggish and volatile with weak consumer confidence, in view of the uncertainties associated with the United States ("US") military action against Iraq in March 2003. As the Group had before that secured confirmed orders of jewellery products from regular customers for the first quarter of the year, the impact of the US military action is considered to be minimal for the first half of the year.

With the outbreak of Severe Acute Respiratory Syndrome ("SARS") which lasted until in the second half of the year, manufacturers of jewellery products in Hong Kong were not permitted to participate in the Basel trade show in Switzerland, one of the largest international jewellery trade shows in Europe. New sales orders from existing and potential overseas customers were adversely affected and unavoidably, financial performance in the second half of the year was hampered. Yet, amidst such a difficult operating environment, the Group strived to sustain a satisfactory level of profit during the year due to quick response by management of the Group to implement effective cost and operational measures to cope with the unexpected changes in the prevailing business environment.

During the year, selling and distribution expenses of the Group recorded an amount of approximately HK\$18.0 million (2002: HK\$16.9 million). The increase in selling and distribution expenses was attributed to the increase of other marketing activities to compensate the effect of restriction to participate in jewellery shows.

Administrative expenses of the Group for the year amounted to approximately HK\$12.2 million (2002: HK\$11.6 million), representing an increase of approximately 5.2% as compared with last year. This represented approximately 4.7% of the Group's turnover for the year.

CHAIRMAN'S STATEMENT *(continued)*

Other operating expenses of the Group for the year were related to research and development costs incurred for development of new products. The other operating expenses for the year amounted to approximately HK\$8.8 million (2002: HK\$3.7 million), representing an increase of approximately 137.8% as compared with last year. The increase was attributable to the development of new designs of jewellery products to increase product varieties, such as new designs of (i) existing products, including rings, earrings, pendants, bracelets, necklaces, brooches, belt buckles and cufflinks; (ii) gem-set jewellery products using both diamonds and gemstones; and (iii) gem-set jewellery products using a combination of precious metals.

For the year ended 30 September 2003, the Group invested approximately HK\$53.9 million (2002: HK\$4.3 million) in additional machinery, furniture, fixtures, office equipment and motor vehicles. The newly acquired assets have significantly strengthened production capability of the Group.

FUTURE PLANS AND PROSPECTS

The Group has established a reputation for its product quality and its ability to manufacture a wide variety of jewellery products. Gem-set jewellery products will remain as the core products of the Group. The Group's mission is to develop its range of new gem-set jewellery products and expand its market coverage, along with the ongoing pursuit of excellent quality.

In view of the concentration of the Group's sales in the US market, the Group will place more marketing efforts in the development of markets in Europe, the Middle East and South East Asia. In this regard, the strengthening of Euro and the positive signs of economic recovery in the South East Asia countries should favour the Hong Kong jewellery exporters for selling their products to these places. In addition, with the signing of Closer Economic Partnership Arrangement ("CEPA") between Hong Kong and the People's Republic of China at the end of June 2003, it was announced that 273 products including jewellery would enjoy the zero tariff bilateral free-trade environment commencing from 1 January 2004. CEPA will give extra momentum to the Group to explore the marketplace in the People's Republic of China and the Group will carefully examine the business opportunities underlying CEPA.

APPRECIATION

On behalf of the Board, I would like to express our appreciation to the management and staff members for their continued dedication and contribution. I would also like to express our gratitude to our shareholders for their support to the Group.