

REPORT OF THE DIRECTORS

The directors ("Directors") of Ming Fung Jewellery Group Limited ("Company") have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the "Group") for the year ended 30 September 2003.

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 14 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 2003 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 30 September 2003 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 24 to 56.

The Directors do not recommend the payment of any dividend in respect of the year ended 30 September 2003.

SUMMARY OF FIVE YEARS' FINANCIAL INFORMATION

The following is a summary of the published consolidated/combined results and of the assets and liabilities of the Group for each of the five years ended 30 September 2003 prepared on the basis set out in the note below:

Results

	Year ended 30 September				
	2003	2002	2001	2000	1999
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	259,563	267,158	195,684	146,420	111,403
Profit from operating activities	40,752	48,649	36,782	27,579	18,927
Finance costs	(1,274)	(532)	(523)	(706)	(589)
Profit before tax	39,478	48,117	36,259	26,873	18,338
Tax	(7,629)	(7,790)	(5,891)	(4,446)	(3,042)
Net profit from ordinary activities attributable to shareholders	31,849	40,327	30,368	22,427	15,296

REPORT OF THE DIRECTORS *(continued)*

SUMMARY OF FIVE YEARS' FINANCIAL INFORMATION *(continued)*

Assets and Liabilities

	At 30 September				
	2003 HK\$'000	2002 HK\$'000	2001 HK\$'000	2000 HK\$'000	1999 HK\$'000
Non-current assets	64,946	15,130	14,551	9,417	6,318
Current assets	171,558	169,752	67,253	45,812	28,927
Total assets	236,504	184,882	81,804	55,229	35,245
Current liabilities	84,401	63,812	39,411	29,033	21,327
Non-current liabilities	—	816	1,006	1,177	1,326
Total liabilities	84,401	64,628	40,417	30,210	22,653
Net assets	152,103	120,254	41,387	25,019	12,592

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 Company's prospectus dated 22 August 2002. 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 years ended 30 September 2002 and 2003 and the assets and liabilities of the Group as at 30 September 2002 and 2003 are those set out in the financial statements on pages 24 and 25 respectively.

FIXED ASSETS

Details of movements in the Group's fixed assets during the year are set out in note 13 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the year are set out in note 21 and note 22 to the financial statements respectively.

REPORT OF THE DIRECTORS *(continued)*



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

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively.

DISTRIBUTABLE RESERVES

As at 30 September 2003, the Company had distributable reserves of approximately HK\$115,287,000 (2002: HK\$113,709,000) calculated in accordance with the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. This includes the Company's share premium account of approximately HK\$109,777,000 (2002: HK\$109,777,000) which 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

During the year under review, sales to the Group's five largest customers accounted for approximately 32% of the total sales for the year and the sales to the largest customer included therein amounted to approximately 10%.

Purchases from the Group's five largest suppliers accounted for approximately 39% of the total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 13%.

None of the Directors, or any of their associates or any substantial 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.

REPORT OF THE DIRECTORS *(continued)*

DIRECTORS

The Directors during the year and up to the date of this report were as follows:

Executive directors

Mr. Wong Chi Ming, Jeffry

Ms. Lui Ching Han, Magda

Mr. Chung Yuk Lun

Independent non-executive directors

Mr. Lee Pak Chung

Mr. Chen Nien Chong

Mr. Chan Bing Kwong, Henry (appointed on 22 January 2003 and resigned on 3 October 2003)

In accordance with article 108(A) of the Company's articles of association, Mr. Chen Nien Chong will retire and, being eligible, offer himself 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 8 and 9 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). Upon the expiry of the service contract of Mr. Chung Yuk Lun on 31 July 2003, Mr. Chung Yuk Lun has renewed his service contract with the Company for a term of one year commencing from 1 August 2003. The service contracts of the executive Directors continue 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.

DIRECTORS' INTERESTS IN CONTRACTS

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.

REPORT OF THE DIRECTORS *(continued)*

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 AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2003, the interests and short positions 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 Companies were as follows:

Director	Type of interest	Number of ordinary shares held	Number of underlying shares held	Total interests	Percentage of interest
Mr. Wong Chi Ming, Jeffry	Corporate (Note)	416,000,000	—	416,000,000	64%

Notes:

- (a) The interest disclosed represents the corporate interest in 416,000,000 shares held by Equity Base Holdings Limited, which is a company incorporated in the British Virgin Islands and wholly owned by Mr. Wong Chi Ming, Jeffry 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, director, who is the spouse of Mr. Wong Chi Ming, Jeffry and will be deemed to be interested in these shares under the SFO.

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 Part XV of the SFO) of the Company, representing the entire issued shares in Equity Base Holdings Limited. Ms. Lui Ching Han, Magda, is also deemed to be interested in these shares of the associated corporation under the SFO.

REPORT OF THE DIRECTORS *(continued)*

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

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 company shareholders requirements.

Save as disclosed above, as at 30 September 2003, none of the Directors or their associates had any interests or short positions in the equity 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 for Securities Transactions by Directors of Listed Companies.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the share option scheme disclosures in note 22 to the financial statements, 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 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.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year under review and up to the 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

Due to the adoption of Hong Kong Statement of Standard Accounting Practice 34 (revised) "Employee benefits" during the year, the detailed disclosures relating to the Company's share option scheme have been moved to note 22 to the financial statements.

REPORT OF THE DIRECTORS *(continued)*

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2003, the following persons (other than the Directors) had an 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 ordinary shares and underlying shares held	Percentage of total issued shares
Equity Base Holdings Limited (<i>Note</i>)	416,000,000	64%
Ms. Wong Siu Han	52,000,000	8%

Note:

- (a) These interests are also included as corporate interests of Mr. Wong Chi Ming, Jeffry, as disclosed under the heading "Directors' interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation". Ms. Lui Ching Han, Magda, the spouse of Mr. Wong Chi Ming, Jeffry will be deemed to be interested in these share under the SFO.
- (b) All the interests disclosed above represent long positions in the shares of the Company.

Save as disclosed above, as at 30 September 2003, 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.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group as at 30 September 2003 are set out in notes 18 and 19 to the financial statements.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 3 to the financial statements on page 32.

REPORT OF THE DIRECTORS *(continued)*

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, 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.

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 two independent non-executive Directors, who have reviewed the financial statements for the year ended 30 September 2003.

AUDITORS

Albert Lam & Co. has been appointed as auditors of the Company by the Directors 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 two years ended 30 September 2003 have been audited by Albert Lam & Co.

Albert Lam & Co. retire and a resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming annual general meeting.

On Behalf Of The Board

Wong Chi Ming, Jeffry
Chairman

Hong Kong
20 January 2004