

NOTES TO THE FINANCIAL STATEMENTS

Year ended 30 September 2003

1. CORPORATE INFORMATION

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. Its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited (“Stock Exchange”) on 3 September 2002. The registered office of the Company is located at Century Yard, Cricket Square, Hutchins Drive, P.O. Box 2681 GT, George Town, Grand Cayman, Cayman Islands, British West Indies. 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 (which together with the Company are collectively referred to as the “Group”) 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.

2. ADOPTION OF NEW OR REVISED HONG KONG STATEMENTS OF STANDARD ACCOUNTING PRACTICE (“SSAPs”)

The Group has adopted the following new or revised SSAPs issued by the Hong Kong Society of Accountants which are effective for the first time in the preparation of the current year’s financial statements:

- SSAP 11 (revised) : Foreign currency translation
- SSAP 15 (revised) : Cash flow statements
- SSAP 34 (revised) : Employee benefits

The adoption of these SSAPs had no significant effect on the financial statements of the Group except for reclassification of cash flows presented in the consolidated cash flow statement into operating, investing and financing activities.

The Group has early adopted “SSAP 1 (revised) : Presentation of financial statements” in last year relating to the presentation of consolidated statement of changes in equity.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with all applicable SSAPs 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 financial statements have been prepared under the historical cost convention.

Basis of presentation and consolidation

The consolidated financial statements for the year ended 30 September 2003 include the financial statements of the Company and its subsidiaries for the year ended 30 September 2003. Subsidiaries are those entities in respect of which the Company, directly or indirectly, controls more than half of the voting power; has the power to govern the financial and operating policies, to appoint or remove the majority of the members of the board of directors, or to cast a majority of votes at the meetings of the board of directors. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from the effective date of acquisition or up to the effective date of disposal, as appropriate.

The consolidated financial statements for the year ended 30 September 2002 have been prepared using the merger basis of accounting as a result of the group reorganisation as set out in the Company's prospectus dated 22 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 and cash flows of the Group for the year ended 30 September 2002 include the results and cash flows of the Company and its subsidiaries with effect from 1 October 2001 or since their respective dates of incorporation/establishment, whichever is a shorter period.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

In prior years, goodwill arising on acquisition was eliminated against consolidated reserves in the year of acquisition. The Group has adopted the transitional provision of "SSAP 30: Business combinations" 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Employee benefits

Pension obligations

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.

Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognized when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognized until the time of leave.

Share option scheme

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The financial impact of share options granted under the share option scheme is not recorded in the Company's or the Group's balance sheet until such time as the options are exercised, and no charge is recorded in the income statement or balance sheet for their cost. Upon the exercise of share options, the resulting shares issued are 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 is recorded by the Company in the share premium account. Options which are cancelled prior to their exercise date, or which lapse, are deleted from register of outstanding options.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

Impairment of assets

An assessment is made at each balance sheet date 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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

3. SIGNIFICANT ACCOUNTING POLICIES *(continued)*

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.

The balance sheets of subsidiaries expressed in foreign currencies are translated at exchange rates ruling as at the balance sheet date, whilst the income statements are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

In prior years, the income statements of foreign enterprises were translated at closing rate. This is a change in accounting policy, however, the translation of the income statements of foreign enterprises in prior years has not been restated as the effect of this change is not material to the current and prior years.

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.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

Cash and cash equivalents

For the purpose of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

Prior to the adoption of the revised SSAP 15 during the year, cash equivalents in the consolidated cash flow statement also included advances from banks repayable within three months from the date of the advance, in addition to bank overdrafts. This change in definition has resulted in reclassification relating to trust receipt loans.

For the purpose of balance sheet, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

4. 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:

	2003 HK\$'000	2002 HK\$'000
Turnover – sale of goods	<u>259,563</u>	<u>267,158</u>
Other revenue:		
Interest income	518	187
Others	<u>501</u>	<u>220</u>
	1,019	407
Gains:		
Gain on disposal of fixed assets	<u>—</u>	<u>126</u>
	<u>1,019</u>	<u>533</u>
	<u>260,582</u>	<u>267,691</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, 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 2003

5. 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 2003 and 2002.

	United States of America		Europe		Middle East and South East Asia		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	<u>141,026</u>	<u>153,130</u>	<u>84,258</u>	<u>83,614</u>	<u>34,279</u>	<u>30,414</u>	<u>259,563</u>	<u>267,158</u>
Segment results	<u>23,923</u>	<u>27,154</u>	<u>15,829</u>	<u>16,294</u>	<u>5,427</u>	<u>4,810</u>	<u>45,179</u>	<u>48,258</u>
Unallocated revenue							<u>1,019</u>	<u>533</u>
Unallocated expenses							<u>(5,446)</u>	<u>(142)</u>
Profit from operating activities							<u>40,752</u>	<u>48,649</u>
Finance costs							<u>(1,274)</u>	<u>(532)</u>
Profit before tax							<u>39,478</u>	<u>48,117</u>
Tax							<u>(7,629)</u>	<u>(7,790)</u>
Net profit from ordinary activities attributable to shareholders							<u>31,849</u>	<u>40,327</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

5. 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	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	97,325	60,480	58,148	33,023	23,657	12,012	—	—	179,130	105,515
Unallocated assets	—	—	—	—	—	—	57,374	79,367	57,374	79,367
Total assets	<u>97,325</u>	<u>60,480</u>	<u>58,148</u>	<u>33,023</u>	<u>23,657</u>	<u>12,012</u>	<u>57,374</u>	<u>79,367</u>	<u>236,504</u>	<u>184,882</u>
Segment liabilities	8,181	15,368	4,888	8,391	1,989	3,053	—	—	15,058	26,812
Unallocated liabilities	—	—	—	—	—	—	69,343	37,816	69,343	37,816
Total liabilities	<u>8,181</u>	<u>15,368</u>	<u>4,888</u>	<u>8,391</u>	<u>1,989</u>	<u>3,053</u>	<u>69,343</u>	<u>37,816</u>	<u>84,401</u>	<u>64,628</u>
Other segment information:										
Depreciation	<u>2,210</u>	<u>1,334</u>	<u>1,320</u>	<u>729</u>	<u>537</u>	<u>265</u>	<u>—</u>	<u>—</u>	<u>4,067</u>	<u>2,328</u>
Capital expenditure	<u>29,276</u>	<u>2,454</u>	<u>17,491</u>	<u>1,340</u>	<u>7,116</u>	<u>487</u>	<u>—</u>	<u>—</u>	<u>53,883</u>	<u>4,281</u>

(b) Geographical segments based on the location of assets

	Hong Kong		Macau		PRC		Consolidated	
	2003	2002	2003	2002	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	<u>55,941</u>	<u>88,776</u>	<u>103,697</u>	<u>80,473</u>	<u>76,866</u>	<u>15,633</u>	<u>236,504</u>	<u>184,882</u>
Capital expenditure	<u>644</u>	<u>131</u>	<u>—</u>	<u>—</u>	<u>53,239</u>	<u>4,150</u>	<u>53,883</u>	<u>4,281</u>

(c) Business segments

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

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

6. PROFIT FROM OPERATING ACTIVITIES

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

	2003 HK\$'000	2002 HK\$'000
Cost of inventories sold	180,922	186,721
Depreciation	4,067	2,328
Minimum lease payments under operating leases on leasehold land and buildings	591	312
Staff costs (excluding directors' remuneration – note 7):		
Wages and salaries	6,794	6,663
Retirement benefits scheme contributions	100	95
	<u>6,894</u>	<u>6,758</u>
Auditors' remuneration	380	380
Research and development costs	8,751	3,739
Gain on disposal of fixed assets	—	(126)
Interest income	<u>(518)</u>	<u>(187)</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

7. 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	
	2003	2002
	HK\$'000	HK\$'000
Fees:		
Executive directors	—	—
Independent non-executive directors	<u>200</u>	<u>28</u>
	200	28
Basic salaries, housing benefits, other allowances and benefits in kind:		
Executive directors	1,740	2,075
Independent non-executive directors	<u>—</u>	<u>—</u>
	1,740	2,075
Retirement benefits scheme contributions:		
Executive directors	33	42
Independent non-executive directors	<u>—</u>	<u>—</u>
	33	42
	<u>1,973</u>	<u>2,145</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

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

Fees include approximately HK\$200,000 (2002: HK\$28,000) 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 (2002: Nil).

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

	Group	
	2003	2002
	Number of directors	Number of directors
Nil – HK\$1,000,000	<u>6</u>	<u>5</u>

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2002: Nil).

During the year, no emoluments were paid by the Group to the directors or any of the five highest paid employees as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2002: Nil).

During the year, there were no options granted to the directors in respect of their services to the Group.

The five highest paid employees during the year included three (2002: two) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining two (2002: three) non-director, highest paid employees, whose remuneration fell within the Nil to HK\$1,000,000 band, are as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	904	882
Retirement benefits scheme contributions	<u>23</u>	<u>36</u>
	<u>927</u>	<u>918</u>

During the year, 4,000,000 share options were granted to the highest paid, non-director employees in respect of their services to the Group. In the absence of a readily available market value for share options on the ordinary shares of the Company, the directors were unable to arrive at an accurate assessment of the value of these share options. Accordingly, no estimated value of such options has been charged to the income statement as at the date of the grant.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

8. FINANCE COSTS

	Group	
	2003	2002
	HK\$'000	HK\$'000
Interest on bank overdrafts, trust receipt loans and bank loans wholly repayable within five years	1,274	467
Interest on bank loans wholly repayable beyond five years	—	65
	<u>1,274</u>	<u>532</u>

9. TAX

The amount of tax charged / (credited) to the consolidated income statement represents:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong profits tax	—	—
Overseas taxation	7,652	7,790
Over-provision of Hong Kong profits tax in prior years	(23)	—
Tax charge for the year	<u>7,629</u>	<u>7,790</u>

No provision for Hong Kong profits tax has been made for the current year as the Group has available tax losses brought forward to set off assessable profits of the current year. No provision for Hong Kong profits tax has been made for last year as the Group did not generate any assessable profits arising in Hong Kong. Overseas taxation is related to Macau tax which has been provided at the applicable income tax rate on the assessable profits based on existing legislation, interpretations and practices in respect thereof.

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 (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

10. 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 year was approximately HK\$1,578,000 (2002: HK\$3,932,000).

11. DIVIDENDS

No interim dividend was declared and paid for the year ended 30 September 2003 (2002: Nil).

No final dividend was proposed for the year ended 30 September 2003 (2002: Nil).

12. 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\$31,849,000 (2002: HK\$40,327,000) and the weighted average number of 650,000,000 (2002: 531,397,260) ordinary shares in issue during the year.

The calculation of diluted earnings per share for the year ended 30 September 2003 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$31,849,000 and the weighted average number of 660,472,537 ordinary shares in issue during the year. The weighted average number of ordinary shares used to calculate the diluted earnings per share comprises the weighted average number of 650,000,000 ordinary shares in issue during the year and the weighted average number of 10,472,537 ordinary shares deemed to be issued at no consideration on exercise of all outstanding share options.

There were no potential dilutive ordinary shares in existence for the year ended 30 September 2002 and, accordingly, no diluted earnings per share has been presented.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

13. FIXED ASSETS

Group

	Plant and machinery <i>HK'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
Cost:				
At 1 October 2002	20,023	2,579	298	22,900
Additions	53,161	571	151	53,883
At 30 September 2003	73,184	3,150	449	76,783
Accumulated depreciation:				
At 1 October 2002	6,390	1,146	234	7,770
Provided during the year	3,773	282	12	4,067
At 30 September 2003	10,163	1,428	246	11,837
Net book value:				
At 30 September 2003	63,021	1,722	203	64,946
At 30 September 2002	13,633	1,433	64	15,130

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2003	2002
	HK\$'000	HK\$'000
Unlisted shares, at cost	77,737	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 Holdings Limited	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
Master Will Limited	Hong Kong	Ordinary HK\$2	100%	Provision of administrative services

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

14. INVESTMENTS 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 <i>(continued)</i>				
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
順德市即達珠寶金行有限公司	PRC	HK\$2,000,000**	100%	Processing of jewellery products

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

** 順德市即達珠寶金行有限公司 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 順德市即達珠寶金行有限公司 of HK\$2,000,000 has been fully paid up by the Group.

15. INVENTORIES

	Group	
	2003	2002
	HK\$'000	HK\$'000
Raw materials	29,185	15,652
Finished goods	23,282	19,835
	<u>52,467</u>	<u>35,487</u>

None of the inventories were stated at net realisable value as at 30 September 2003 (2002: Nil).

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

16. 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	
	2003	2002
	HK\$'000	HK\$'000
1 – 30 days	36,836	34,766
31 – 60 days	15,751	13,721
61 – 90 days	1,952	2,746
	<u>54,539</u>	<u>51,233</u>

17. CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSIT

	Group		Company	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances	29,028	12,343	27	6,754
Bank deposits	28,346	67,007	—	9,251
	57,374	79,350	27	16,005
Less: Pledged bank deposit for banking facilities – note 19	—	(758)	—	—
Cash and cash equivalents	<u>57,374</u>	<u>78,592</u>	<u>27</u>	<u>16,005</u>

At 30 September 2003, the cash and cash equivalents of the Group denominated in Renminbi ("RMB") amounted to approximately HK\$13,252,000 (2002: Nil). RMB is not freely convertible into foreign currencies. Subject to PRC Foreign Exchange Control Regulations and Administration of Settlement, Sales and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for foreign currencies through banks authorized to conduct foreign exchange business.

NOTES TO THE FINANCIAL STATEMENTS (continued)

Year ended 30 September 2003

18. INTEREST-BEARING BANK BORROWINGS, SECURED

	Note	Group	
		2003 HK\$'000	2002 HK\$'000
Bank overdrafts, secured	19	7,772	5,910
Trust receipt loans, secured	19	21,326	4,075
Bank loans, secured and repayable:	19		
Within one year		8,500	5,056
In the second year		—	196
In the third to fifth years, inclusive		—	620
		<u>37,598</u>	<u>15,857</u>
Portion classified as current liabilities		<u>(37,598)</u>	<u>(15,041)</u>
Long term portion		<u>—</u>	<u>816</u>

19. BANKING FACILITIES

At 30 September 2003, the Group's banking facilities were secured by the corporate guarantees from the Company and certain subsidiaries of the Company.

20. 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	
	2003 HK\$'000	2002 HK\$'000
1 – 30 days	12,073	16,452
31 – 60 days	1,935	6,708
61 – 90 days	507	1,184
	<u>14,515</u>	<u>24,344</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

21. SHARE CAPITAL

	2003 HK\$'000	2002 HK\$'000
<i>Authorised:</i>		
2,000,000,000 ordinary shares of HK\$0.01 each	<u>20,000</u>	<u>20,000</u>
<i>Issued and fully paid:</i>		
650,000,000 ordinary shares of HK\$0.01 each	<u>6,500</u>	<u>6,500</u>

There were no changes to the carrying amount or the number of ordinary shares in issue during the year.

22. SHARE OPTIONS

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.

The total number of shares of the Company which may be issued upon exercise of all options 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.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

22. SHARE OPTIONS *(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 and 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.

Movements in the share options granted under the Share Option Scheme during the year are as follows:

Eligible participants	Date of grant	Exercise price	Number of share option			
			At beginning of year	Granted during the year	Exercised during the year	At end of year
Employees (excluding directors)	29 April 2003	HK\$0.138	—	42,500,000	—	42,500,000
Suppliers of goods or services and others	29 April 2003	HK\$0.138	—	22,500,000	—	22,500,000
			—	65,000,000	—	65,000,000

The closing price of the Company's shares on 28 April 2003, immediately before the date of grant of the above share options was HK\$0.135.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

22. SHARE OPTIONS *(continued)*

The exercisable period of the above share options is 3 years from the date of the grant as determined by the directors and they will expire on 28 April 2006. No share options were exercised, lapsed or cancelled during the year. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 65,000,000 additional ordinary shares and cash proceeds to the Company of HK\$8,970,000 before the related share issue expenses.

As at the date of this report, no share options have been offered and/or granted to the directors and chief executives of the Group under the Share Option Scheme.

The directors consider it inappropriate to disclose the value of options granted under the Share Option Scheme. 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. 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 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.

23. RESERVES

Group

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity of the financial statements.

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 2003, was approximately HK\$276,000. The goodwill was stated at its cost.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

23. RESERVES *(continued)*

Company

	Share premium HK\$'000	Retained profits HK\$'000	Total HK\$'000
Arising on acquisition of Ming Fung Investment Holdings Limited and applied in payment of 10,000,000 ordinary shares allotted nil paid on 28 February 2002	77,537	—	77,537
New issue	45,500	—	45,500
Capitalisation issue	(5,000)	—	(5,000)
Share issue expenses	(8,260)	—	(8,260)
Net profit for the period – note 10	—	3,932	3,932
At 30 September 2002 and 1 October 2002	109,777	3,932	113,709
Net profit for the year – note 10	—	1,578	1,578
At 30 September 2003	109,777	5,510	115,287

Notes:

- 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.
- As at 30 September 2003, in the opinion of the directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$115,287,000 (2002: HK\$113,709,000), subject to the restrictions stated in note (a) above.
- 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 on 12 August 2002 over the nominal value of the share capital of the Company issued in exchange therefore; (ii) the premium arising from the new issue; less (iii) the premium arising from the capitalisation issue.
- 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 on 12 August 2002 over the nominal value of the share capital of the Company issued in exchange therefore; (ii) the premium arising from the new issue; less (iii) the premium arising from the capitalisation issue.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2003 HK\$'000	2002 HK\$'000
Profit from operating activities	40,752	48,649
Interest income	(518)	(187)
Gain on disposal of fixed assets	—	(126)
Depreciation	4,067	2,328
(Increase) / decrease in prepayments, deposits and other receivables	(3,496)	158
Increase in inventories	(16,980)	(11,170)
Increase in trade receivables	(3,306)	(15,228)
Decrease / (increase) in pledged bank deposit	758	(8)
(Decrease) / increase in trade payables	(9,829)	5,857
Increase in trust receipt loans, secured	17,251	2,575
Increase in short-term bank loans, secured	3,630	4,870
Increase in other payables and accruals	232	30
Net cash inflow generated from operations	<u>32,561</u>	<u>37,748</u>

(b) Analysis of changes in financing activities

	Long-term bank loans, secured HK\$'000	Issued capital and share premium HK\$'000
At 1 October 2001	1,177	200
Cash (outflow)/inflow from financing activities	<u>(175)</u>	<u>38,540</u>
At 30 September 2002 and 1 October 2002	1,002	38,740
Cash outflow from financing activities	<u>(1,002)</u>	<u>—</u>
At 30 September 2003	<u>—</u>	<u>38,740</u>

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

25. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2002: Nil).

The Company has given guarantees in favour of certain banks to the extent of HK\$39,500,000 (2002: HK\$13,500,000) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2003, the banking facilities utilised by these subsidiaries amounted to approximately HK\$37,598,000 (2002: 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 2003, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2003	2002
	HK\$'000	HK\$'000
Within one year	855	299
In the second to fifth years, inclusive	158	—
	<u>1,013</u>	<u>299</u>

The Company did not have any operating lease arrangements as at 30 September 2003 (2002: Nil).

27. RELATED PARTY TRANSACTIONS

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

- pledged 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, and secured for banking facilities granted to the Group were released and replaced by the corporate guarantees from the Company and certain subsidiaries of the Company;
- fixed charges on the leasehold land and buildings owned by Mr. Wong and Ms. Lui, the executive directors of the Company, and secured for banking facilities granted to the Group were released and replaced by the corporate guarantees from the Company and certain subsidiaries of the Company; and
- joint and several personal guarantees provided by Mr. Wong and Ms. Lui, the executive directors of the Company, and secured for banking facilities granted to the Group were released and replaced by the corporate guarantees from the Company and certain subsidiaries of the Company.

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

Year ended 30 September 2003

28. ULTIMATE HOLDING COMPANY

The directors of the Company consider that the ultimate holding company of the Company as at 30 September 2003 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 20 January 2004.