

CHAIRMAN'S STATEMENT

2004



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 2004.

FINANCIAL PERFORMANCE

For the year ended 30 September 2004, the Group posted a record high turnover of approximately HK\$354.0 million, representing an encouraging increase of approximately 36.4% as compared to approximately HK\$259.6 million in previous year. Net profit from ordinary activities attributable to shareholders was approximately HK\$47.0 million, representing an increase of approximately 47.8% over that of the previous year. Gross profit margin was increased to approximately 30.9% as compared to 30.3% of last year, while net profit margin was approximately 13.3%, increasing by about 8.1% as compared to that of 12.3% of last year.

BUSINESS REVIEW

During the year under review, the global economy has shown prominent positive signs of recovery from the downturn effects after the Severe Acute Respiratory Syndrome (the "SARS") and the Iraq war. With the improvement of general economy, the Group grasped this favourable opportunity to maintain active presence in a series of major international jewellery trade shows throughout the year to strengthen the relationship with existing customers while exploring fresh orders from new customers. The trade shows that demonstrated promising results to the Group include Hong Kong International Jewellery Show 2004, Basel 2004, the 16th MidEast Watch & Jewellery Show, the 4th Shanghai International Jewellery Fair, International Jewellery Moscow, JCK Las Vegas Show 2004, VicenzaOro 2, Korea International Jewellery & Watch Fair, Orogemma and Hong Kong Jewellery & Watch Fair 2004. In line with the strenuous efforts of the management, returned sales orders from existing customers coupled with new customer orders have resulted in higher turnover and wider operating profit margin.

Selling and distribution expenses of the Group recorded an amount of approximately HK\$28.7 million (2003: HK\$18.0 million) during the year. The increase of approximately 59.4% in selling and distribution expenses was in collaboration with the strong efforts being dedicated to marketing promotion and exhibition activities.

Administrative expenses of the Group for the year have an increase of 33.6% to HK\$16.3 million as compared to HK\$12.2 million in prior year. The increase was collaborated to the Group's strategy of maintaining a stable level of administrative expenses at 4.6% of the Group's turnover as compared with that of 4.7% of last year.

Other operating expenses of the Group for the year were attributable to research and development costs incurred for development of new products and researching of new production technology. The underlying other operating expenses for the year has evidenced a reduction of 39.8% from HK\$8.8 million in 2003 to HK\$5.3 million in the current year. The cause of the decrease was a large number of research and development programs being carried out in prior year in the course of developing new product designs and varieties along with enhancement of product qualities.



CHAIRMAN'S STATEMENT *(Continued)*

During the year, to cope with the long-term growth potentials and to strengthen the production capability of the Group, the Group continued to acquire further machinery, furniture, fixtures and office equipment which valued at approximately HK\$16.3 million.

FUTURE PLANS AND PROSPECTS

The Group has established an excellent reputation for its product quality and its ability to manufacture a wide variety of jewellery products at competitive prices in the market. Gem-set jewellery products will continue to remain as the core products of the Group. To design and create ranges of high-quality gem-set jewellery products which are receptive to our customers and responsive to the market trend is always our Group's mission. The Group will continue to expand its market share and customer base by actively participating in the international jewellery trade shows and exhibitions, and adopting competitive marketing strategies in the course of reaching out to new customers.

Facing the highly competitive environment in the US market, the Group will continue to place more marketing efforts in maintaining and exploring the jewellery markets in Europe and the Middle East. In this regard, the strengthening of Euro and other cross currencies as against the weak US dollars should result in Hong Kong jewellery more attractive to the customers in these regions. In addition, with the implementation of Closer Economic Partnership Arrangement ("CEPA") between Hong Kong and the People's Republic of China ("PRC") during the year which enables Hong Kong jewellery operations to enjoy a zero (PRC) import-tariff (which could otherwise be at 35%) for import of jewellery to China, extra opportunities to the Group are anticipated in exploring such a huge marketplace in the PRC. In view of the growing potentials of the PRC market, the Group has carried out extensive market research and studies and will actively develop the opportunities in the wholesaling and retailing businesses in the PRC.

Looking forward, with the worldwide economic environment continually improving and buyers being more active in placing orders in recent trade fairs, demand for jewellery products will continue to grow at a healthy pace and performance in the coming future is expected to look promising and optimistic. As our Group's committed mission, we will continue to pursue in the jewellery industry in a leading market position with recognised reputation so as to realize and share the fruitful results of the promising industry growth with shareholders.

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 supports to the Group.

Wong Chi Ming, Jeffry

Chairman

Hong Kong

19 January 2005