

# REPORT OF THE DIRECTORS

# 2004



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 2004.

## 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 2004 is set out in note 5 to the financial statements.

## RESULTS AND DIVIDENDS

The Group’s profit for the year ended 30 September 2004 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 28 to 60.

During the year, an interim dividend of HK\$1,625,000 (2003: Nil) was declared and paid on 28 July 2004. The Directors proposed a final dividend of HK0.5 cent per share for the year ended 30 September 2004 (2003: Nil) to be payable to shareholders whose names appear in the register of members of the Company on 3 March 2005. This proposed dividend was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained earnings for the year ended 30 September 2004.

## 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 2004, prepared on the bases set out in the note below:

### Results

	Year ended 30 September				
	2004	2003	2002	2001	2000
	HK\$’000	HK\$’000	HK\$’000	HK\$’000	HK\$’000
Turnover	<b>353,967</b>	259,563	267,158	195,684	146,420
Profit from operating activities	<b>59,749</b>	40,752	48,649	36,782	27,579
Finance costs	<b>(2,354)</b>	(1,274)	(532)	(523)	(706)
Profit before tax	<b>57,395</b>	39,478	48,117	36,259	26,873
Tax	<b>(10,421)</b>	(7,629)	(7,790)	(5,891)	(4,446)
Net profit from ordinary activities attributable to shareholders	<b>46,974</b>	31,849	40,327	30,368	22,427

# REPORT OF THE DIRECTORS *(Continued)*

## SUMMARY OF FIVE YEARS' FINANCIAL INFORMATION *(Continued)*

### Assets and Liabilities

	At 30 September				
	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>	2001 <i>HK\$'000</i>	2000 <i>HK\$'000</i>
Non-current assets	<b>71,155</b>	64,946	15,130	14,551	9,417
Current assets	<b>240,967</b>	171,558	169,752	67,253	45,812
Total assets	<b>312,122</b>	236,504	184,882	81,804	55,229
Current liabilities	<b>114,670</b>	84,401	63,812	39,411	29,033
Non-current liabilities	—	—	816	1,006	1,177
Total liabilities	<b>114,670</b>	84,401	64,628	40,417	30,210
Net assets	<b>197,452</b>	152,103	120,254	41,387	25,019

*Note: The summaries of the published consolidated/combined results of the Group for the two years ended 30 September 2000 and 2001, and of the assets and liabilities of the Group as at those dates have been extracted from the 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 year ended 30 September 2002 and 2003 and the assets and liabilities of the Group as at 30 September 2002 and 2003 are extracted from the audited financial statements. The results of the Group for the year ended 30 September 2004 and the assets and liabilities of the Group as at 30 September 2004 are those set out in the financial statements on pages 28 and 29 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

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

### PRE-EMPTIVE RIGHTS

There is no provision 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**

The Company has not redeemed any of its shares, and neither the Company, nor any of its subsidiaries has purchased 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 2004, the Company had distributable reserves of approximately HK\$130,462,000 (2003: HK\$115,287,000), of which HK\$3,250,000 (2003: Nil) has been proposed as final dividend for the year, 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 (2003: 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**

In the year under review, sales to the Group's five largest customers accounted for approximately 38% 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 45% of the total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 19%.

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

## **DIRECTORS**

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

### *Executive directors*

Mr. Wong Chi Ming, Jeffrey

Ms. Lui Ching Han, Magda

Mr. Chung Yuk Lun

Mr. Yu Fei Philip

(appointed on 2 April 2004)



# REPORT OF THE DIRECTORS *(Continued)*

## **DIRECTORS** *(Continued)*

### *Independent non-executive directors*

Mr. Lee Pak Chung

Mr. Chen Nien Chong

Mr. Chan Bing Kwong, Henry (resigned on 3 October 2003)

Mr. Chan Man Kiu (appointed on 9 March 2004)

In accordance with articles 108(A) and 112 of the Company's articles of association, Mr. Yu Fei Philip, Mr. Lee Pak Chung and Mr. Chan Man Kiu will retire and, being eligible, offer themselves 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**

Mr. Wong Chi Ming, Jeffrey and Ms. Lui Ching Han, Magda, both as executive directors have entered into a service contract with the Company for an initial term of three years commencing from 1 August 2002.

Mr. Chung Yuk Lun as executive director has entered into a service contract with the Company for an initial term of two years commencing from 1 August 2002 and upon the expiry of his last service contract on 31 July 2004, Mr. Chung Yuk Lun has renewed his service contract with the Company for a term of one year commencing from 1 August 2004.

Mr. Yu Fei Philip as executive director has entered into a service contract with the Company for an initial term of two years commencing from 2 April 2004.

The existing service contracts of the executive directors will 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.

## 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.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 September 2004, the interests 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 interests	Number of issued ordinary shares held	Number of underlying shares held	Total interests	Percentage of interest
Mr. Wong Chi Ming, Jeffry	Corporate <i>(Note)</i>	416,000,000	–	416,000,000	64%

### Notes:

- 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.
- All the interests disclosed above represent long positions in the shares of the Company.
- 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 2004, none of the Directors, or their associates had any interests or short positions in the shares 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 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**

Detailed disclosures relating to the Company's share option scheme are set out in note 22 to the financial statements.

# REPORT OF THE DIRECTORS *(Continued)*

2004



## SUBSTANTIAL SHAREHOLDERS

As at 30 September 2004, the following persons (other than the Directors) had 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:

<b>Name</b>	<b>Number of issued ordinary shares and underlying shares held</b>	<b>Percentage of total issued shares</b>
Equity Base Holdings Limited <i>(Note)</i>	416,000,000 <i>(Note)</i>	64%

*Note:*

- (a) These interests are also included as corporate interests of Mr. Wong Chi Ming, Jeffrey, 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, Jeffrey will be deemed to be interested in these shares under the SFO.
- (b) All the interests stated above represent long positions in the shares of the Company.

Save as disclosed above, as at 30 September 2004, 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 2004 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 36.

## PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the percentage of the ordinary shares in public hands exceed 25% as at 19 January 2005, the latest practicable date to ascertain such information prior to the issue of this annual report.



# 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 to the Listing Rules, except that the independent non-executive Directors are not appointed for specific terms as required by the Code, but they are subject to retirement by rotation and re-election at the annual general meeting in accordance with the Company’s articles of association.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED COMPANIES (“Model Code”)

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. The Company has made specific enquiry of all directors regarding any non-compliance with the Model Code during the year under review and they all confirmed that they have fully complied with the required standard set out in the Model Code.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to rule 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed three independent non-executive directors. The Company confirms that it has received from each of the independent non-executive directors a confirmation of his independence pursuant to rule 3.13 and the Company still considers all the existing independent non-executive directors to be independent.

## 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 three independent non-executive Directors, who have reviewed the financial statements for the year ended 30 September 2004.

## AUDITORS

The financial statements of the Company for the year ended 30 September 2004 have been audited by Albert Lam & Co. who retire and, being eligible, offer themselves for re-appointment.

On behalf of the board

**Wong Chi Ming, Jeffry**  
*Chairman*

Hong Kong  
19 January 2005