



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 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. IMPACT OF RECENTLY ISSUED HONG KONG FINANCIAL REPORTING STANDARDS

The Hong Kong Institute of Certified Public Accountants (“HKICPA”) has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (herein collectively referred to as the “new HKFRSs”), which are generally effective for accounting periods beginning on or after 1 January 2005. Therefore, the Group has not adopted these new HKFRSs in the financial statements for the year ended 30 September 2005. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to quantify and state the impact of these new HKFRSs on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with all applicable Statements of Standard Accounting Practice and Interpretations issued by the HKICPA, 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 include the financial statements of the Company and its subsidiaries for the year ended 30 September 2005. The results of subsidiaries acquired or disposed of during the year are included in the consolidated financial statements from or to their effective date of acquisition or up to the effective date of disposal, as appropriate.

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



3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Subsidiaries

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 majority of votes at the meetings of the Board of Directors.

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) for 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) for interest income, on a time proportion basis, taking into account the principal outstanding and the effective interest rate applicable.

Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined the geographical segment be presented as the primary reporting format and business segment as the secondary reporting format.

Unallocated costs represent corporate expenses. Segment assets consist primarily of property, plant and equipment, inventories and receivables. Segment liabilities comprise operating liabilities and exclude items such as taxation and certain corporate borrowings.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are based on where the assets are located.

Trade receivables

Provision is made against trade receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provision.

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.



3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

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 acquisitions 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.

Employee benefits

(i) 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.

(ii) Employee leave entitlements

Employee entitlements to annual leave and long service leave are recognised 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 recognised until the time of leave.



3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Employee benefits (*Continued*)

(iii) 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.

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 of 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 or amortisation), had no impairment loss been recognised for the asset in prior years.



3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Impairment of assets (*Continued*)

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.

Property, plant and equipment

Property, plant and equipment 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 the property, plant and equipment 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 property, plant and equipment, 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	15.0%
Furniture, fixtures and office equipment	15.0%
Motor vehicles	15.0%

The gains or losses on disposal or retirement of property, plant and equipment recognised in the income statement are the difference between the net sales proceeds and the carrying amount of the relevant assets.

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 tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets should be recognised for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilised, and also should be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised.



3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Deferred taxation (*Continued*)

Deferred tax assets and liabilities should be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the balance sheet date.

Foreign currencies translation

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 sheet 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.

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.

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.

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.

Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that the outflow is probable, it will then be recognised as a provision.



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 and other revenue of the Group is as follows:

	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	<u>429,959</u>	<u>353,967</u>
Other revenue:		
Interest income	535	241
Others	<u>717</u>	<u>468</u>
	<u>1,252</u>	<u>709</u>
	<u>431,211</u>	<u>354,676</u>

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, segment information is presented by way of 2 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 activities of the Group are the manufacture and sale of jewellery products, which are 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;
- (ii) Europe; and
- (iii) Middle East and South East Asia.

In determining the Group's geographical segments, revenue is attributed to the segments based on the location of customers and assets are attributed to the segments based on the location of assets.



5. SEGMENT INFORMATION (Continued)

(i) (a) Geographical segments based on the location of customers

The following tables present revenue, results and certain asset, liability and expenditure information of the Group's geographical segments for the years ended 30 September 2005 and 2004.

	United States		Europe		Middle East and South East Asia		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment revenue:								
Sales to external customers	222,269	186,931	164,774	129,452	42,916	37,584	429,959	353,967
Segment results	35,132	32,613	31,496	23,777	7,249	6,058	73,877	62,448
Unallocated revenue							1,252	709
Unallocated expenses							(6,844)	(3,408)
Profit from operating activities							68,285	59,749
Finance costs							(3,953)	(2,354)
Profit before tax							64,332	57,395
Tax							(10,149)	(10,421)
Net profit from ordinary activities attributable to shareholders							54,183	46,974



5. SEGMENT INFORMATION (Continued)

(i) (a) Geographical segments based on the location of customers (Continued)

	United States		Europe		Middle East and South East Asia		Unallocated		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	167,552	129,042	124,211	89,363	32,353	25,944	-	-	324,116	244,349
Unallocated assets	-	-	-	-	-	-	79,322	67,773	79,322	67,773
Total assets	167,552	129,042	124,211	89,363	32,353	25,944	79,322	67,773	403,438	312,122
Segment liabilities	10,155	9,722	7,529	6,732	1,961	1,955	-	-	19,645	18,409
Unallocated liabilities	-	-	-	-	-	-	137,358	96,261	137,358	96,261
Total liabilities	10,155	9,722	7,529	6,732	1,961	1,955	137,358	96,261	157,003	114,670
Other segment information:										
Depreciation	6,204	5,352	4,599	3,706	1,198	1,076	-	-	12,001	10,134
Capital expenditure	18,374	8,631	13,621	5,977	3,547	1,735	-	-	35,542	16,343

(b) Geographical segments based on the location of assets

	Hong Kong		Macau		PRC		Consolidated	
	2005	2004	2005	2004	2005	2004	2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	64,910	61,575	217,715	162,184	120,813	88,363	403,438	312,122
Capital expenditure	39	628	-	-	35,503	15,715	35,542	16,343

(ii) Business segments

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



Year ended 30 September 2005

6. PROFIT FROM OPERATING ACTIVITIES

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

	2005 HK\$'000	2004 HK\$'000
Cost of inventories sold	308,754	244,591
Depreciation	12,001	10,134
Minimum lease payments under operating leases on leasehold land and buildings	653	682
Staff costs (excluding directors' remuneration – note 7):		
Wages and salaries	7,230	8,319
Retirement benefits scheme contributions	119	129
	<u>7,349</u>	<u>8,448</u>
Auditors' remuneration	750	450
Research and development costs	3,203	5,329
Interest income	<u>(535)</u>	<u>(241)</u>

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:

	2005			2004
	Fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
Mr. Wong Chi Ming, Jeffrey	–	964	–	964*
Ms. Lui Ching Han, Magda	–	780	–	780*
Mr. Chung Yuk Lun	–	480	9	489*
Mr. Yu Fei, Philip	–	100	–	100
Mr. Lee Pak Chung	50	–	–	50
Mr. Chen Nien Chong	60	–	–	60
Mr. Chan Man Kiu	100	–	–	100
	<u>210</u>	<u>2,324</u>	<u>9</u>	<u>2,543</u>
				<u>2,579</u>

* Also highest paid employees of the Group.



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

Fees include approximately HK\$210,000 (2004: HK\$133,000) 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 (2004: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2004: 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 compensation for loss of office (2004: 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 (2004: two) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining two (2004: three) non-director, highest paid employees, whose remuneration fell within the Nil to HK\$1,000,000 band, are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Basic salaries, housing benefits, other allowances and benefits in kind	1,014	1,674
Retirement benefits scheme contributions	—	11
	1,014	1,685

During the year, no (2004: Nil) share options were granted to the highest paid, non-director employees in respect of their services to the Group.

8. FINANCE COSTS

	Group	
	2005	2004
	HK\$'000	HK\$'000
Interest on bank overdrafts, trust receipt loans and other bank loans wholly repayable within 5 years	3,953	2,354



Year ended 30 September 2005

9. TAX

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

	Group	
	2005	2004
	HK\$'000	HK\$'000
Current year provision:		
Hong Kong profits tax	–	–
Overseas taxation	10,149	10,421
Tax charge for the year	<u>10,149</u>	<u>10,421</u>

- (a) No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong.
- (b) 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.

A reconciliation of the tax expense applicable to profit before tax using the principal statutory rates for the countries in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates, are as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Profit before tax	<u>64,332</u>	<u>57,395</u>
Tax at the statutory rate of 17.5%	11,258	10,044
Effect of different rates for companies operating in other jurisdictions	(1,126)	(1,158)
Expenses not deductible for tax	1,180	1,232
Income not subjected to tax	(1,367)	(74)
Unutilised tax losses	<u>204</u>	<u>377</u>
Tax charge at the Group's effective rate	<u>10,149</u>	<u>10,421</u>

No provision for deferred tax has been made as the Group did not have any significant unprovided deferred tax in respect of the year (2004: Nil).

**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\$8,105,000 (2004: HK\$16,800,000).

11. DIVIDENDS

During the year, an interim dividend of approximately HK\$1,950,000 (2004: HK\$1,625,000) was declared and paid on 20 July 2005.

At a meeting held on 19 January 2006, the directors proposed a final dividend of HK0.5 cent per share (2004: HK0.5 cent) for the year ended 30 September 2005 to be payable to shareholders whose names appear in the register of members of the Company on 3 March 2006. Subject to shareholders' approval at the forthcoming annual general meeting, such dividend will be payable on or about 24 March 2006. This proposed dividend was not reflected as a dividend payable in these financial statements, but will be reflected as an appropriation of retained profits for the year ended 30 September 2005.

12. EARNINGS PER SHARE**(a) Basic 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\$54,183,000 (2004: HK\$46,974,000) and the weighted average number of 650,000,000 shares (2004: 650,000,000 shares) in issue during the year.

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 30 September 2005 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK\$54,183,000 (2004: HK\$46,974,000) and the weighted average number of 698,632,399 shares (2004: 682,405,167 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.



Year ended 30 September 2005

12. EARNINGS PER SHARE (Continued)

(c) Reconciliations

	2005 Number of shares	2004 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	650,000,000	650,000,000
Deemed issue of ordinary shares for no consideration	48,632,399	32,405,167
Weighted average number of ordinary shares used in calculating diluted earnings per share	698,632,399	682,405,167

13. PROPERTY, PLANT AND EQUIPMENT

Group

	Plant and machinery HK\$'000	Furniture, fixtures and office equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost:				
At 1 October 2004	88,899	3,230	997	93,126
Additions	35,481	61	–	35,542
At 30 September 2005	124,380	3,291	997	128,668
Accumulated depreciation:				
At 1 October 2004	19,961	1,693	317	21,971
Provided during the year	11,663	236	102	12,001
At 30 September 2005	31,624	1,929	419	33,972
Net book value:				
At 30 September 2005	92,756	1,362	578	94,696
At 30 September 2004	68,938	1,537	680	71,155



14. INVESTMENTS IN SUBSIDIARIES

	Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	<u>77,737</u>	<u>77,737</u>

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	100.0%	Investment holding
Indirectly held				
Brilliant Jewellery Trading Limited	BVI/Macau	Ordinary US\$1,000	100.0%	Distribution of jewellery products
Brilliant (Macao Commercial Offshore) Company Limited	Macau	Ordinary MOP\$100,000	100.0%	Distribution of jewellery products
Jeda International Services Limited	BVI/Israel, India and Belgium	Ordinary US\$1,000	100.0%	Provision of procurement services
Magfrey Company Limited	Hong Kong	Ordinary HK\$1,000,000	100.0%	Trading of diamonds and gemstones
On Line Jewellery Manufacturer Company Limited	Hong Kong	Ordinary HK\$1,000,000	100.0%	Manufacture and sale of jewellery products
Master Will Limited	Hong Kong	Ordinary HK\$2	100.0%	Provision of administrative services
On Line Pacific Services Limited	BVI/People's Republic of China ("PRC")	Ordinary US\$1,000	100.0%	Provision of quality control services
Pacific Worldwide Marketing Services Limited	BVI/United States, Europe, Middle East and South East Asia	Ordinary US\$1,000	100.0%	Provision of marketing services



Year ended 30 September 2005

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 (Continued)				
佛山市順德區即達珠寶金行有限公司	PRC	HK\$2,000,000**	100.0%	Processing of jewellery products
Maxbonus Investments Limited [#]	Hong Kong/PRC	Ordinary HK\$1	100.0%	Investment holding
Ascent Hill Investments Limited [#]	Hong Kong	Ordinary HK\$1	100.0%	Investment holding

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

** 佛山市順德區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 佛山市順德區即達珠寶金行有限公司 of HK\$2,000,000 has been fully paid up by the Group.

[#] Subsidiaries incorporated during the year.

15. INVENTORIES

	Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	63,402	47,110
Finished goods	61,070	34,587
	124,472	81,697

16. TRADE RECEIVABLES

The Group normally allows credit terms to established customers ranging from 30 to 120 days. 100.0% provision is made for outstanding debts aged over 365 days.

An ageing analysis of the trade receivables as at the balance sheet date, based on the date of recognition of the sale, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
1 – 30 days	47,982	44,231
31 – 60 days	39,948	37,014
61 – 90 days	16,842	5,057
	104,772	86,302



17. CASH AND CASH EQUIVALENTS

	Group		Company	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Cash and bank balances	51,144	48,408	29	27
Non-pledged time deposits	21,363	19,365	–	–
Cash and cash equivalents	<u>72,507</u>	<u>67,773</u>	<u>29</u>	<u>27</u>

18. INTEREST-BEARING BANK BORROWINGS, SECURED

		Group	
	Notes	2005 HK\$'000	2004 HK\$'000
Bank overdrafts, secured	19	4,078	8,016
Trust receipt loans, secured	19	76,594	47,461
Bank loans, secured and repayable within 1 year	19	<u>6,000</u>	<u>–</u>
		<u>86,672</u>	<u>55,477</u>

19. BANKING FACILITIES

As at 30 September 2005, 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 ageing analysis of the trade payables as at the balance sheet date, based on the date of receipt of goods purchased, is as follows:

	Group	
	2005 HK\$'000	2004 HK\$'000
1 – 30 days	13,554	14,581
31 – 60 days	2,569	1,791
61 – 90 days	<u>955</u>	<u>427</u>
	<u>17,078</u>	<u>16,799</u>



Year ended 30 September 2005

21. SHARE CAPITAL

	2005 HK\$'000	2004 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 was limited to 10.0% (i.e. 65,000,000 shares) of the then issued share capital of the Company as at the date the Share Option Scheme became effective on 3 September 2002. Options carrying rights to subscribe for these 65,000,000 shares were fully granted to employees (excluding directors) and suppliers of goods or services and others of the Group in accordance with the rules of the Share Option Scheme on 29 April 2003.



22. SHARE OPTIONS (*Continued*)

On 27 June 2003, the Company's shareholders passed an ordinary resolution to refresh the 10.0% general limit ("Refreshed Limit") under the Share Option Scheme in accordance with the Listing Rules, in order to enable the Company to grant further options up to a maximum of 65,000,000 shares based on the then 650,000,000 issued shares. Options in respect of all the 65,000,000 shares available under the Refreshed Limit were fully granted to employees (excluding directors), suppliers of goods or services and others of the Group on 3 March 2004. The total number of shares in respect of which option had been granted under the Share Option Scheme and remained outstanding as at the date of this annual report was 130,000,000, representing 20.0% of the issued share capital of the Company at the date of this annual report. At the forthcoming annual general meeting of the Company, shareholders' approval shall be sought to refresh the 10.0% general limit on the grant of options under the Share Option Scheme, so as to allow for granting of further options carrying rights to subscribe for a maximum number of shares, representing 10.0% of the issued share capital of the Company as at the date of passing of the relevant resolution.

The limit on the number of securities which may be issued upon exercise of all outstanding options granted and yet to be exercised under the scheme and any other schemes must not exceed 30% of the relevant class of securities of the listed issuer (or the subsidiary) in issue from time to time. No options may be granted under any schemes of the listed issuer (or the subsidiary) if this will result in the limit being exceeded.

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 1.0% 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.

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\$5.0 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, whichever is the 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 5 trading days immediately preceding the date of the offer of the grant; and (iii) the nominal value of the Company's shares.



Year ended 30 September 2005

22. SHARE OPTIONS (*Continued*)

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

Eligible participants	Date of grant	Exercise price	Exercise period	Number of share option			
				At beginning of the year	Granted during the year	Exercised during the year	At end of the year
Employees (excluding directors)	29 April 2003	HK\$0. 138	29 April 2003 to 28 April 2006	42,500,000	-	-	42,500,000
	3 March 2004	HK\$0. 26	3 March 2004 to 2 March 2007	32,500,000	-	-	32,500,000
Suppliers of goods or services and others	29 April 2003	HK\$0. 138	29 April 2003 to 28 April 2006	22,500,000	-	-	22,500,000
	3 March 2004	HK\$0. 26	3 March 2004 to 2 March 2007	32,500,000	-	-	32,500,000
				<u>130,000,000</u>	<u>-</u>	<u>-</u>	<u>130,000,000</u>

The closing prices of the Company's shares on 28 April 2003 and 2 March 2004, immediately before the date of grant of the above share options were HK\$0.135 and HK\$0.27 respectively.

During the year and up to the date of this report, no share options were exercised, lapsed or cancelled. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 130,000,000 additional ordinary shares and cash proceeds to the Company of HK\$25,870,000 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, exercise price, 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.



22. SHARE OPTIONS (*Continued*)

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.

Company

	Share premium <i>HK\$'000</i>	Proposed final dividend <i>HK\$'000</i>	Retained profits <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 30 September 2003 and 1 October 2003	109,777	–	5,510	115,287
Interim dividend paid on 28 July 2004	–	–	(1,625)	(1,625)
Final dividend proposed	–	3,250	(3,250)	–
Net profit for the year (<i>Note 10</i>)	–	–	16,800	16,800
At 30 September 2004 and 1 October 2004	109,777	3,250	17,435	130,462
Final dividend paid on 30 March 2005	–	(3,250)	–	(3,250)
Interim dividend paid on 20 July 2005	–	–	(1,950)	(1,950)
Final dividend proposed	–	3,250	(3,250)	–
Net profit for the year (<i>Note 10</i>)	–	–	8,105	8,105
At 30 September 2005	109,777	3,250	20,340	133,367



Year ended 30 September 2005

23. RESERVES (Continued)

Notes:

- (a) 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.
- (b) As at 30 September 2005, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to approximately HK\$133,367,000 (2004: HK\$130,462,000) of which HK\$3,250,000 (2004: HK\$3,250,000) has been proposed as final dividend for the year, subject to the restrictions stated in note (a) above.
- (c) The share premium account of the Company 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 therefor; (ii) the premium arising from the new issue; and (iii) the premium arising from the capitalisation issue.
- (d) The share premium account of the Group includes: (i) the difference between the 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 therefor; (ii) the premium arising from the new issue; and (iii) the premium arising from the capitalisation issue.

24. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	2005 HK\$'000	2004 HK\$'000
Profit from operating activities	68,285	59,749
Interest income	(535)	(241)
Depreciation	12,001	10,134
(Increase)/decrease in prepayments, deposits and other receivables	(1,796)	1,983
Increase in inventories	(42,775)	(29,230)
Increase in trade receivables	(18,470)	(31,763)
Increase in trade payables	279	2,284
Increase in trust receipt loans, secured	29,133	26,135
Increase in bank loans, secured and repayable within 1 year	6,000	—
Increase/(decrease) in other payables and accruals	710	(315)
Net cash inflow generated from operations	52,832	38,736



25. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2004: Nil).

The Company has given guarantees in favour of certain banks to the extent of approximately HK\$198,700,000 (2004: HK\$64,000,000) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2005, the banking facilities utilised by these subsidiaries amounted to approximately HK\$86,672,000 (2004: HK\$55,477,000).

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 were 2 years.

As at 30 September 2005, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2005	2004
	HK\$'000	HK\$'000
Within 1 year	578	166
In 2 to 5 years, inclusive	72	36
	650	202

The Company did not have any operating lease arrangements as at 30th September, 2005 (2004: Nil).

27. CAPITAL COMMITMENTS

As at 30 September 2005, the Group had no outstanding capital commitments (2004: HK\$3,020,000).

The Company did not have any significant capital commitments as at 30 September 2005.

28. ULTIMATE HOLDING COMPANY

The directors of the Company consider that the ultimate holding company of the Company as at 30 September 2005 was Equity Base Holdings Limited, which was incorporated in the British Virgin Islands.

29. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 19 January 2006.