

REPORT OF THE DIRECTORS



The directors (“Directors”) of Ming Fung Jewellery Group Limited (“Company”) have pleasure in submitting their annual report together with the audited financial statements of the Company and its subsidiaries (collectively, the “Group”) for the year ended 30 September 2006.

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 15 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 geographical segments based on the location of customers and business segments for the year ended 30 September 2006 is set out in note 5 to the financial statements.

RESULTS AND DIVIDENDS

The Group’s results for the year ended 30 September 2006 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 35 to 74.

During the year, an interim dividend of HK\$2,054,000 (2005: HK\$1,950,000) was declared and paid on 16 August 2006. The Directors proposed a final dividend of HK0.5 cent per share for the year ended 30 September 2006 (2005: HK0.5 cent) to be payable to shareholders whose names appear in the register of members of the Company on 16 March 2007. 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 2006.

SUMMARY OF 5 YEARS’ FINANCIAL INFORMATION

The following is a summary of the published consolidated results and of the assets and liabilities of the Group for each of the 5 years ended 30 September 2006, prepared on the bases set out in the note below:

Results

	Year ended 30 September				
	2006 HK\$’000	2005 HK\$’000	2004 HK\$’000	2003 HK\$’000	2002 HK\$’000
Turnover	480,372	429,959	353,967	259,563	267,158
Profit from operating activities	78,567	68,285	59,749	40,752	48,649
Finance costs	(9,276)	(3,953)	(2,354)	(1,274)	(532)
Profit before tax	69,291	64,332	57,395	39,478	48,117
Tax	(12,273)	(10,149)	(10,421)	(7,629)	(7,790)
Net profit from ordinary activities attributable to shareholders	57,018	54,183	46,974	31,849	40,327



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SUMMARY OF 5 YEARS' FINANCIAL INFORMATION (*Continued*)

Assets and Liabilities

	At 30 September				
	2006 <i>HK\$'000</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>	2002 <i>HK\$'000</i>
Non-current assets	87,739	94,696	71,155	64,946	15,130
Current assets	423,125	308,742	240,967	171,558	169,752
Total assets	510,864	403,438	312,122	236,504	184,882
Current liabilities	159,675	157,003	114,670	84,401	63,812
Non-current liabilities	42,500	–	–	–	816
Total liabilities	202,175	157,003	114,670	84,401	64,628
Net assets	308,689	246,435	197,452	152,103	120,254

Note: The results of the Group for the years ended 30 September 2002, 2003, 2004 and 2005 and the assets and liabilities of the Group as at 30 September 2002, 2003, 2004 and 2005 are extracted from the audited financial statements. The results of the Group for the year ended 30 September 2006 and the assets and liabilities of the Group as at 30 September 2006 are those set out in the financial statements on pages 35 and 36 respectively.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the Group's property, plant and equipment during the year are set out in note 14 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.

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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 24 to the financial statements and in the consolidated statement of changes in equity respectively.

DISTRIBUTABLE RESERVES

As at 30 September 2006, the Company had distributable reserves of approximately HK\$145,642,000 (2005: HK\$133,367,000), of which HK\$3,488,000 (2005: HK\$3,250,000) 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\$119,822,000 (2005: 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 5 largest customers accounted for approximately 39% 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 5 largest suppliers accounted for approximately 47% of the total purchases for the year and the purchases from the largest supplier included therein amounted to approximately 17%.

None of the Directors, or any of their associate(s) 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 5 largest customers or 5 largest suppliers.



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DIRECTORS

The Directors during the year were as follows:

Executive Directors

Mr. Wong Chi Ming, Jeffry (*Chairman*)

Ms. Lui Ching Han, Magda

Mr. Chung Yuk Lun

Mr. Yu Fei, Philip

Independent Non-Executive Directors

Mr. Lee Pak Chung

Mr. Chan Man Kiu

Mr. Tam Ping Kuen, Daniel (*appointed on 1 May 2006*)

Mr. Chen Nien Chong (*retired on 1 May 2006*)

In accordance with Articles 108(A) of the Company's articles of association, Mr. Wong Chi Ming, Jeffry and Mr. Yu Fei, Philip will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

In accordance with Article 112 of the Company's articles of association, Mr. Tam Ping Kuen, Daniel, who was appointed in May 2006 will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details of the Directors and the senior management of the Group are set out on pages 9 and 10 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Mr. Wong Chi Ming, Jeffry and Ms. Lui Ching Han, Magda, both as executive directors have entered into service contracts with the Company, their term of service commenced from 1 August 2002 for an initial period of 36 months and expired on 31 July 2005 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment.

Mr. Chung Yuk Lun as executive director has entered into a service contract with the Company, his term of service commenced from 1 August 2002 for an initial period of 12 months and expired on 31 July 2003 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment.

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DIRECTORS' SERVICE CONTRACTS *(Continued)*

Mr. Yu Fei, Philip as executive director has entered into a service contract with the Company, his term of service commenced from 2 April 2004 for an initial period of 24 months and will expire on 1 April 2006 renewable automatically for successive terms of one year each commencing from the day next after the expiry of the then current term of the appointment.

The existing service contracts of the executive directors will continue thereafter until terminated by either party giving not less than 3 months' notice in writing to the other party.

Save as disclosed above, no Director proposed to have a service contract with the Company which is not determinable by the Company within 1 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 CORPORATIONS

As at 30 September 2006, 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 (Notes)	416,000,000	–	416,000,000	59.6%



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

Notes:

- (a) The interest disclosed represents the 416,000,000 shares held by Equity Base Holdings Limited, a company incorporated in the British Virgin Islands which is wholly owned by Mr. Wong Chi Ming, Jeffrey by virtue of Section 344(3) of the SFO.
- (b) All the interests disclosed above represent long positions in the shares of the Company.
- (c) Ms. Lui Ching Han, Magda, an executive director and spouse of Mr. Wong Chi Ming, Jeffrey is deemed to be interested in these shares under the SFO.

Mr. Wong Chi Ming, Jeffrey beneficially owns 800 shares of US\$1 each in Equity Base Holdings Limited, representing its entire issued share capital. Ms. Lui Ching Han, Magda, is also deemed to be interested in these shares under the SFO.

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 number of shareholders required for Hong Kong incorporated companies which was in force prior to 13 February 2004.

Save as disclosed above, as at 30 September 2006, none of the Directors, or their associate(s) 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 the share option scheme disclosures in note 23 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.

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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 23 to the financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 30 September 2006, 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:

Name	Number of issued ordinary shares and underlying shares held	Percentage of total issued
Equity Base Holdings Limited	416,000,000 (<i>Notes</i>)	59.6%

Notes:

- (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 corporations". Ms. Lui Ching Han, Magda, an executive director and spouse of Mr. Wong Chi Ming, Jeffrey is 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 2006, 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.



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INTEREST BEARING BANK LOANS AND OTHER BORROWINGS

Particulars of interest bearing bank loans and other borrowings of the Company and the Group as at 30 September 2006 are set out in notes 20 and 21 to the financial statements.

RETIREMENT BENEFITS SCHEME

Details of the retirement benefits scheme of the Group are set out in note 2 to the financial statements under “Employee benefits: (a) Pension obligations” on page 45.

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 5 January 2007, the latest practicable date to ascertain such information prior to the issue of this annual report.

CORPORATE GOVERNANCE

The Company has complied throughout the year ended 30 September 2006 with the code provisions of the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 of the Listing Rules with deviation on role segregation of chairman and chief executive officer. For detail discussion, please refer to the Corporate Governance Report of this annual report.

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 of the Listing Rules. The Company has made specific enquiry on 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 Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed 3 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 of the Listing Rules 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 3 independent non-executive directors, who have reviewed the financial statements for the year ended 30 September 2006.

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AUDITORS

Hopkins CPA Limited (formerly known as Messrs. Albert Lam & Co., Certified Public Accountants), has audited the financial statements for the year. Hopkins CPA Limited has expressed its willingness to continue in office and the Board recommends that it be reappointed. A resolution proposing the reappointment of Hopkins CPA Limited as auditor of the Company and giving authority to the directors to determine its remuneration will be submitted to the forthcoming annual general meeting.

On behalf of the Board
Ming Fung Jewellery Group Limited
Wong Chi Ming, Jeffrey
Chairman

Hong Kong
28 December 2006