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 address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands. 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 15 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of preparation

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which also include Hong Kong Accounting Standard ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The adoption of new/revised HKFRS

During the year, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 12	Income Taxes
HKAS 14	Segment Reporting
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 18	Revenue
HKAS 19	Employee Benefits
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 37	Provisions, Contingent Liabilities and Contingent Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKFRS 2	Share-based Payment
HKFRS 3	Business Combinations

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of preparation *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 21, 23, 24, 27, 32, 33, 36, 37, 38, 39, HKFRS 2 and 3 did not result in substantial changes to the Group's accounting policies. In summary:

– HKAS 1 has affected the disclosures of financial statements.

– HKASs 2, 7, 8, 10, 12, 14, 16, 17, 18, 19, 23, 27, 32, 33, 36, 37, 38, 39 and HKFRS 3 have no material effect on the Group's policies.

– HKAS 21 has no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard.

– HKAS 24 has affected the identification of related parties and some other related-party disclosures.

– HKFRS 2 has resulted in a change in the accounting policy for the existing share option scheme. Prior to the adoption, the Group did not have to account for the compensation cost relating to the share options granted to its participants. With effect from 1 October 2005, the Group has to amortize the cost in the income statement over its vesting period. According to the transitional provisions of HKFRS 2, the new accounting policy shall apply to share options that were granted after 7 November 2002 and had not vested as at 1 January 2005. As all share options of the Group have been granted after 29 April 2003 and vested on or before 3 March 2004, the change in accounting policy has had no material effect to the income statement for the year ended and prior periods. The Group will apply the new requirements for future share options granted.

At the date of approval of these financial statements, the Group has not early adopted the following new standards and interpretations relevant to its operations which have been issued but are not yet effective. It is expected that the adoption of such standards or interpretations will not result in substantial changes to the Group's accounting policies.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 21 (Amendment)	Net Investment in a Foreign Operation
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendments)	Financial Guarantee Contracts
HKFRS 7	Financial Instruments: Disclosures
HKFRS-Int 4	Determining whether an Arrangement contains a Lease
HK(IFRIC)-Int 7	Financial Reporting in Hyperinflationary Economies
HK(IFRIC)-Int 8	Scope of HKFRS 2
HK(IFRIC)-Int 9	Reassessment of Embedded Derivatives

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 2006. 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.

Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains on transactions between the Group's entities are eliminated. Unrealised losses are also eliminated but considered as an impairment indicator of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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 dividend received and receivable.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Such provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the consolidated income statement.

2. 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 business combination over the Group's interest in the net fair value of the acquirees' identifiable assets acquired, and liabilities and contingent liabilities assumed as at the date of acquisition.

Goodwill on acquisitions for which the agreement date is on or after 1 October 2005 applies.

Goodwill arising on acquisition is recognised in the consolidated balance sheet as an asset, initially measured at cost and subsequently at cost less any accumulated impairment losses.

The carrying amount of goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

(a) represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and

(b) is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with HKAS 14 "Segment Reporting".

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised.

Where goodwill forms part of a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

An impairment loss recognised for goodwill is not reversed in a subsequent period.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Goodwill *(Continued)*

Goodwill previously eliminated against the consolidated reserves

Prior to the adoption of Statement of Standard Accounting Practice 30 "Business Combinations" in 2001, goodwill arising on acquisition was eliminated against the consolidated retained profits in the year of acquisition. On the adoption of HKFRS 3, such goodwill remains eliminated against the consolidated retained profits and is not recognised in profit or loss when all or part of the business to which the goodwill relates is disposed of or when a cash-generating unit to which the goodwill relates becomes impaired.

Employee benefits

(a) *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.

(b) *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.

(c) *Share option scheme*

The Group operates an equity-settled, share option scheme. The fair value of the employee services and suppliers of goods or services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimates of the number of options that are expected to become exercisable. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories, deferred tax assets, financial assets, investment properties and goodwill), the asset's recoverable amount is estimated. An asset's recoverable amount is calculated as the higher of the asset's or cash-generating unit's value in use and its fair value less costs to sell, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss if recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. 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, in which case the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment of assets *(Continued)*

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, however not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation), had no impairment loss been recognised for the asset in prior years. A reversal of such impairment loss is credited to the income statement in the period in which it arises, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is accounted for in accordance with the relevant accounting policy for that revalued asset.

Property, plant and equipment

All property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation is calculated on the reducing-balance basis to write off the cost of each asset, less accumulated impairment losses, over its estimated useful life. The principal annual rates used for this purpose are as follows:

Leasehold improvement	20%
Plant and machinery	15%
Furniture, fixtures and office equipment	15% – 20%
Motor vehicles	15%

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.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Deferred taxation

Deferred taxation 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 taxation 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 taxation 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.

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

(a) *Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's functional currency is United States dollars ("US$") while the consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is the presentation currency of the Group and the Company.

(b) *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Foreign currencies translation *(Continued)*

(c) *Group companies*

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

Related parties

Parties are considered to be related to the Group if:

(a) directly, or indirectly through one or more intermediaries, the Group:

(i) controls, is controlled by, or is under common control with, the entity;

(ii) has an interest in the entity that gives it significant influence over the entity;

(iii) has joint control over the entity;

(b) the party is a jointly-controlled entity;

(c) the party is a member of the key management personnel of the Group or its parent;

(d) the party is a close member of the family or any individual referred to in (a) or (c);

(e) the party is an entity that is controlled, jointly-controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (c) or (d); or

(f) the party is a post-employment benefit plan for the benefit of employees of the Group, or of any entity that is a related party of the Group.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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 3 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.

Share capital

Ordinary shares are classified as equity. Share capital is determined using the nominal value of shares that have been issued.

Any transaction costs associated with the issuing of shares are deducted from the proceeds (net of any related income tax benefits), to the extent they are incidental costs directly attributable to the equity transaction.

Financial risk management

The Group's activities expose it to various kinds of financial risks. These risks are minimised by the Group's financial management policies and practices described below. The Group does not use derivative financial instruments for speculative purposes.

The credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial risk management *(Continued)*

Policies are established to regularly monitor current and expected liquidity requirements and its compliance with lending covenant, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from financial institutions to meet its liquidity requirements in the shorter and longer term.

As a result of operating the business internationally, there is exposure to foreign currency risk. The management ensures that the net exposure is kept to an acceptable level and will consider appropriate hedging measures, if needed.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Impairment of receivables

The Group's management determines impairment of receivables on a regular basis. This estimate is based on the credit history of its customers and current market conditions. Management reassesses the impairment of receivables at the balance sheet date.

(b) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where useful lives are less than previously estimated lives, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of selling products of a similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventory is shown at the lower of cost and net realisable value.

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.

5. SEGMENT INFORMATION

In accordance with the Group's internal financial reporting, segment information is presented by way of 2 segment formats: (a) on a primary segment reporting basis, by geographical segment; and (b) 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:

(a) United States;

(b) Europe; and

(c) 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)*

(a) (i) 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 2006 and 2005.

	United States		Europe		Middle East and South East Asia		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:								
Sales to external customers	**221,252**	222,269	**189,591**	164,774	**69,529**	42,916	**480,372**	429,959
Segment results	**32,599**	35,132	**34,813**	31,496	**20,119**	7,249	**87,531**	73,877
Unallocated revenue							**2,147**	1,252
Unallocated expenses							**(11,111)**	(6,844)
Profit from operating activities							**78,567**	68,285
Finance costs							**(9,276)**	(3,953)
Profit before tax							**69,291**	64,332
Tax							**(12,273)**	(10,149)
Net profit from ordinary activities attributable to shareholders							**57,018**	54,183

5. SEGMENT INFORMATION *(Continued)*

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

	United States		Europe		Middle East and South East Asia		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**196,779**	167,552	**168,619**	124,211	**61,837**	32,353	**427,235**	324,116
Unallocated assets	**–**	–	**–**	–	**–**	–	**83,629**	79,322
Total assets	**196,779**	167,552	**168,619**	124,211	**61,837**	32,353	**510,864**	403,438
Segment liabilities	**6,242**	10,155	**5,349**	7,529	**1,961**	1,961	**13,552**	19,645
Unallocated liabilities	**–**	–	**–**	–	**–**	–	**188,623**	137,358
Total liabilities	**6,242**	10,155	**5,349**	7,529	**1,961**	1,961	**202,175**	157,003
Other segment information:								
Depreciation	**7,002**	6,204	**6,000**	4,599	**2,201**	1,198	**15,203**	12,001
Capital expenditure	**4,171**	18,374	**3,575**	13,621	**1,312**	3,547	**9,058**	35,542

(ii) Geographical segments based on the location of assets

	Hong Kong		Macau		PRC		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**65,077**	64,910	**326,652**	217,715	**119,135**	120,813	**510,864**	403,438
Capital expenditure	**552**	39	**–**	–	**8,506**	35,503	**9,058**	35,542

5. SEGMENT INFORMATION *(Continued)*

(b) Business segments

The following tables present revenue, results and certain asset, liability and expenditure information of the Group's business segments for the years ended 30 September 2006 and 2005.

	Exports		Domestic		Consolidated	
	2006	2005	**2006**	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue:						
Sales to external customers	**459,930**	429,959	**20,442**	–	**480,372**	429,959
Segments results	**80,831**	73,877	**6,700**	–	**87,531**	73,877
Unallocated revenue					**2,147**	1,252
Unallocated expenses					**(11,111)**	(6,844)
Profit from operating activities					**78,567**	68,285
Finance costs					**(9,276)**	(3,953)
Profit before tax					**69,291**	64,332
Tax					**(12,273)**	(10,149)
Net profit from ordinary activities attributable to shareholders					**57,018**	54,183
Segment assets	**339,693**	–	**87,542**	–	**427,235**	403,438
Unallocated assets	**–**	–	**–**	–	**83,629**	–
Total assets	**339,693**	–	**87,542**	–	**510,864**	403,438
Segment liabilities	**13,056**	–	**496**	–	**13,552**	157,003
Unallocated liabilities	**–**	–	**–**	–	**188,623**	–
Total liabilities	**13,056**	–	**496**	–	**202,175**	157,003
Other segment information:						
Depreciation	**14,474**	12,001	**729**	–	**15,203**	12,001
Capital expenditure	**3,159**	35,542	**5,899**	–	**9,058**	35,542

6. OTHER REVENUE

	2006	2005
	HK$'000	*HK$'000*
Interest income	**1,445**	535
Others	**702**	717
	2,147	1,252

7. PROFIT FROM OPERATING ACTIVITIES

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

	2006	2005
	HK$'000	*HK$'000*
Cost of inventories sold	**342,687**	308,754
Depreciation	**15,203**	12,001
Minimum lease payments under operating leases on leasehold land and buildings	**2,928**	653
Staff costs (excluding directors' remuneration – note 8):		
Wages and salaries	**8,371**	7,230
Retirement benefits scheme contributions	**108**	119
	8,479	7,349
Auditors' remuneration	**1,200**	750
Research and development costs	**317**	3,203
Interest income	**(1,445)**	(535)

8. DIRECTORS' REMUNERATION AND 5 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:

	2006				2005
	Fees	Salaries, allowances and benefits in kind	Retirement benefits scheme contributions	Total	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Mr. Wong Chi Ming, Jeffry*	–	780	–	780	964
Ms. Lui Ching Han, Magda*	–	780	–	780	780
Mr. Chung Yuk Lun*	–	570	11	581	489
Mr. Yu Fei, Philip	–	100	–	100	100
Mr. Lee Pak Chung	36	–	–	36	50
Mr. Chan Man Kiu	100	–	–	100	100
Mr. Tam Ping Kuen, Daniel	42	–	–	42	–
Mr. Chen Nien Chong	35	–	–	35	60
	213	2,230	11	2,454	2,543

* Also highest paid employees of the Group.

Fees include approximately HK$213,000 (2005: HK$210,000) 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 (2005: Nil).

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2005: Nil).

During the year, no emoluments were paid by the Group to the directors or any of the 5 highest paid employees as an inducement to join, or upon joining the Group, or as compensation for loss of office (2005: Nil).

During the year, there were no options granted to the directors in respect of their services to the Group (2005: Nil).

Year ended 30 September 2006

8. DIRECTORS' REMUNERATION AND 5 HIGHEST PAID EMPLOYEES *(Continued)*

The 5 highest paid employees during the year included 3 (2005: 3) directors, details of whose remuneration are disclosed above. The details of the remuneration of the remaining 2 (2005: 2) non-director, highest paid employees, whose remuneration fell within the Nil to HK$1,000,000 band, are as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Basic salaries, housing benefits, other allowances and benefits in kind	**1,046**	1,014
Retirement benefits scheme contributions	**–**	–
	1,046	1,014

During the year, no (2005: Nil) share options were granted to the highest paid, non-director employees in respect of their services to the Group.

9. FINANCE COSTS

	Group	
	2006	2005
	HK$'000	*HK$'000*
Interest on interest bearing bank overdrafts, trust receipt loans and other interest bearing bank loans wholly repayable within 5 years	**9,276**	3,953

10. TAX

The amount of tax charged to the consolidated income statement represents:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Current year provision:		
Hong Kong profits tax	**–**	–
Overseas taxation	**12,273**	10,149
Tax charge for the year	**12,273**	10,149

(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	
	2006	2005
	HK$'000	*HK$'000*
Profit before tax	**69,291**	64,332
Tax at the statutory rate of 17.5%	**12,126**	11,258
Effect of different rates for companies operating in other jurisdictions	**(1,119)**	(1,126)
Expenses not deductible for tax	**311**	1,180
Income not subjected to tax	**(798)**	(1,367)
Unutilised tax losses	**1,753**	204
Tax charge at the Group's effective rate	**12,273**	10,149

No provision for deferred taxation has been made as the Group did not have any significant unprovided deferred taxation in respect of the year (2005: Nil).

11. 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$7,631,000 (2005: HK$8,105,000).

12. DIVIDENDS

During the year, an interim dividend of approximately HK$2,054,000 (2005: HK$1,950,000) was declared and paid on 16 August 2006.

At a meeting held on 28 December 2006, the directors proposed a final dividend of HK0.5 cent per share (2005: HK0.5 cent) for the year ended 30 September 2006 to be payable to shareholders whose names appear in the register of members of the Company on 16 March 2007. Subject to shareholders' approval at the forthcoming annual general meeting, such dividend will be payable on or about 30 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.

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS

(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$57,018,000 (2005: HK$54,183,000) and the weighted average number of 669,495,890 shares (2005: 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 2006 is based on the Group's net profit from ordinary activities attributable to shareholders for the year of approximately HK$57,018,000 (2005: HK$54,183,000) and the weighted average number of 678,119,969 shares (2005: 698,632,399 shares) after adjusting for the effects of all dilutive potential ordinary shares under the Company's share option scheme.

13. EARNINGS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS *(Continued)*

(c) Reconciliations

	2006 Number of shares	2005 Number of shares
Weighted average number of ordinary shares used in calculating basic earnings per share	**669,495,890**	650,000,000
Deemed issue of ordinary shares for no consideration	**8,624,079**	48,632,399
Weighted average number of ordinary shares used in calculating diluted earnings per share	**678,119,969**	698,632,399

14. PROPERTY, PLANT AND EQUIPMENT

Group

At 30 September 2006

	Leasehold improvement HK$'000	Plant and machinery HK$'000	Furniture, fixtures and office equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Cost:					
At 1 October 2005	–	124,380	3,291	997	128,668
Additions	5,666	2,561	323	508	9,058
Disposals*	–	–	(2,234)	(449)	(2,683)
At 30 September 2006	**5,666**	**126,941**	**1,380**	**1,056**	**135,043**
Accumulated depreciation:					
At 1 October 2005	–	31,624	1,929	419	33,972
Exchange translation	12	–	1	–	13
Provided during the year	703	14,138	220	142	15,203
Disposals*	–	–	(1,574)	(310)	(1,884)
At 30 September 2006	**715**	**45,762**	**576**	**251**	**47,304**
Net book value:					
At 30 September 2006	**4,951**	**81,179**	**804**	**805**	**87,739**

* *It includes disposal of subsidiaries (note 26)*

Reconciliation of opening balance:

At 30 September 2005

	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

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2006	2005
	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
Brilliant (Macao Commercial Offshore) Company Limited	Macau	Ordinary MOP$100,000	100%	Distribution of jewellery products
Jeda International Services Limited	BVI/Israel, India and Belgium	Ordinary US$1,000	100%	Dormant
Magfrey Company Limited##	Hong Kong	Ordinary HK$1,000,000	100%	Trading of diamonds and gemstones
On Line Jewellery Manufacturer Company Limited	Hong Kong	Ordinary HK$1,000,000	100%	Manufacture and sale of jewellery products

15. 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)*				
Master Will Limited	Hong Kong	Ordinary HK$2	100%	Provision of administrative services
On Line Pacific Services Limited	BVI	Ordinary US$1,000	100%	Dormant
Pacific Worldwide Marketing Services Limited	BVI/United States, Europe, Middle East and South East Asia	Ordinary US$1,000	100%	Dormant
佛山市順德區即達珠寶金行有限公司	PRC	HK$2,000,000**	100%	Processing of jewellery products
Maxbonus Investments Limited	Hong Kong/PRC	Ordinary HK$1	100%	Investment holding
Ascent Hill Investments Limited	Hong Kong	Ordinary HK$1	100%	Investment holding
Bolton Limited#	Hong Kong	Ordinary HK$1	100%	Investment holding
Joymart Enterprises Limited#	BVI	Ordinary US$1,000	100%	Trading of jewellery products
Megaprofit Enterprises Limited#	BVI	Ordinary US$1,000	100%	Trading of jewellery products
莎梵蒂珠寶貿易(上海)有限公司#	PRC	US$140,000^^	100%	Retailing of jewellery products

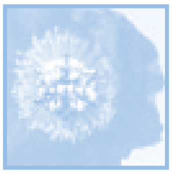
* Where the place of operations is different from its place of incorporation/ establishment.

** 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.

^^ 莎梵蒂珠寶貿易(上海)有限公司 is a wholly foreign-owned enterprise established in the PRC for an operating period of 20 years commencing from its date of establishment on 22 May 2006. The registered capital of 莎梵蒂珠寶貿易(上海)有限公司 of US$140,000 has been fully paid up by the Group.

Subsidiaries incorporated during the year.

The subsidiary was disposed during the year and did not have any significant impact on the Group's cash flows or operating results.




16. INVENTORIES

	Group	
	2006	2005
	HK$'000	*HK$'000*
Raw materials	**81,554**	63,402
Finished goods	**133,096**	61,070
	214,650	124,472

17. 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 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	
	2006	2005
	HK$'000	*HK$'000*
1 – 30 days	**42,415**	47,982
31 – 60 days	**44,770**	39,948
61 – 90 days	**27,505**	16,842
	114,690	104,772

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	2006	2005	**2006**	2005
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Cash and bank balances	**61,074**	51,144	**2,100**	29
Non-pledged time deposits	**22,352**	21,363	**–**	–
Cash and cash equivalents	**83,426**	72,507	**2,100**	29

19. 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	
	2006	2005
	HK$'000	*HK$'000*
1 – 30 days	**9,230**	13,554
31 – 60 days	**774**	2,569
61 – 90 days	**1,477**	955
Over 91 days	**127**	–
	11,608	17,078

20. SECURED INTEREST BEARING BANK BORROWINGS

		Group	
		2006	2005
	Notes	***HK$'000***	*HK$'000*
Bank overdrafts, secured	*21*	**41**	4,078
Trust receipt loans, secured	*21*	**38,866**	76,594
Bank loans, secured	*21*	**85,000**	6,000
		123,907	86,672
Secured interest bearing bank borrowings are repayable as follows:			
Within 1 year		**81,407**	86,672
In the 2nd year		**42,500**	–
		123,907	86,672
Portion classified as current liabilities		**(81,407)**	(86,672)
Non-current portion		**42,500**	–

All secured interest bearing bank borrowings were denominated in Hong Kong dollars. All bank loans bear interest at variable rates ranging from 6.02% to 6.18% per annum at 30 September 2006.

All trust receipt loans and overdraft bear interest at floating interest rate.

21. BANKING FACILITIES

As at 30 September 2006, the Group's banking facilities were secured by the corporate guarantees of the Company and certain subsidiaries of the Company.

22. SHARE CAPITAL

	Notes	Number of shares '000	Nominal value HK$'000
Authorised ordinary shares of HK$0.01 each			
At 30 September 2005 and 30 September 2006		2,000,000	20,000
Issued and fully paid ordinary shares of HK$0.01 each			
At 30 September 2005		650,000	6,500
Issue of shares upon exercise of share options	*23*	47,500	475
At 30 September 2006		697,500	6,975

23. SHARE OPTIONS

The Company operates a share option scheme ("Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. The 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 12 August 2002.

Salient details of the Scheme are:

(a) The maximum number of shares issuable upon exercise of the options which may be granted under the 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;

(b) 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 Scheme, whichever is the earlier;

23. SHARE OPTIONS *(Continued)*

(c) 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; and

(d) 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.

The total number of shares in respect of which option had been granted under the Scheme and remained outstanding as at the date of this annual report was 32,500,000, representing 4.7% of the issued share capital of the Company at the date of this annual report.

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

				Number of share option			
Eligible participants	Date of grant	Exercise price	Exercise period	At beginning of the year	Exercised during the year	Lapsed 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	(10,500,000)	(32,000,000)	–
	3 March 2004	HK$0.26	3 March 2004 to 2 March 2007	32,500,000	(13,000,000)	–	19,500,000
Suppliers of goods or services and others	29 April 2003	HK$0.138	29 April 2003 to 28 April 2006	22,500,000	(4,500,000)	(18,000,000)	–
	3 March 2004	HK$0.26	3 March 2004 to 2 March 2007	32,500,000	(19,500,000)	–	13,000,000
				130,000,000	(47,500,000)	(50,000,000)	32,500,000

23. SHARE OPTIONS *(Continued)*

The related weighted average exercise prices of share options outstanding are as follows:

	2006		2005	
	Weighted average exercise price ***HK$***	**Number of share options**	Weighted average exercise price *HK$*	Number of share options
Beginning of year	**0.199**	**130,000,000**	0.199	130,000,000
Exercised	**0.221**	**(47,500,000)**	–	–
Lapsed	**0.138**	**(50,000,000)**	–	–
End of year	**0.260**	**32,500,000**	0.199	130,000,000

The weighted average closing price immediately before the date on which the options were exercised is HK$0.432.

No share options were granted or cancelled during the year. All the outstanding share options as of 30 September 2006 were granted and vested before 1 January 2005. The Company did not disclose the value of such share options, since the Company considered that valuation of such share options would be subject to a number of assumptions that would be subjective and uncertain and might not be meaningful.

Since adoption of the Scheme, no share options have been offered and/or granted to the directors of the Group under the Scheme.

As explained in note 2 to the financial statements, according to the transitional provisions of the HKFRS 2, the Company, being the first-time adopter, is not required to apply HKFRS 2 which requires, amongst others, the estimation of fair value of share options granted, to any of the outstanding share options as of 30 September 2006.

The Company will apply HKFRS 2 for share options granted in future.

24. 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

	Notes	**Share premium** *HK$'000*	**Proposed final dividend** *HK$'000*	**Retained profits** *HK$'000*	**Total** *HK$'000*
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	*11*	–	–	8,105	8,105
At 30 September 2005 and 1 October 2005		109,777	3,250	20,340	133,367
Final dividend paid on 24 March 2006		–	(3,250)	(97)	(3,347)
Interim dividend paid on 16 August 2006		–	–	(2,054)	(2,054)
Issue of shares upon exercise of share options		10,045	–	–	10,045
Final dividend proposed		–	3,488	(3,488)	–
Net profit for the year	*11*	–	–	7,631	7,631
At 30 September 2006		**119,822**	**3,488**	**22,332**	**145,642**

24. 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 2006, in the opinion of the Directors, the reserves of the Company available for distribution to shareholders amounted to 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, 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; (iii) the premium arising from the capitalisation issue; and (iv) the premium arising from issue of shares upon exercise of share options scheme.

(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; (iii) the premium arising from the capitalisation issue; and (iv) the premium arising from issue of shares upon exercise of share options scheme.

25. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit from operating activities to net cash (outflow)/inflow from operations

	2006	2005
	HK$'000	*HK$'000*
Profit from operating activities	**78,567**	68,285
Interest income	**(1,445)**	(535)
Depreciation	**15,203**	12,001
Loss on disposal of property, plant and equipment	**35**	–
Gain on disposal of subsidiaries	**(80)**	–
Increase in prepayments, deposits and other receivables	**(3,396)**	(1,796)
Increase in inventories	**(90,178)**	(42,775)
Increase in trade receivables	**(9,918)**	(18,470)
(Decrease)/increase in trade payables	**(4,973)**	279
Increase in other payables and accruals	**1,329**	710
Tax paid	**(90)**	–
Net cash (outflow)/inflow from operations	**(14,946)**	17,699

26. DISPOSAL OF SUBSIDIARIES

In August 2006, the Group disposed of its entire equity interests in Magfrey Company Limited. The net assets of the subsidiary at the date of disposal were as follows:

	HK$'000
NET ASSETS DISPOSED OF:	
Property, plant and equipment	695
Prepayments, deposits and other receivables	28
Trade payables	(497)
Other payables and accruals	(106)
	120
Gain on disposal	80
Total consideration	200
Satisfied by:	
Cash consideration	200
Net inflow of cash and cash equivalents in respect of the disposal of subsidiary	200

The subsidiary disposed of during the year did not have any significant impact on the Group's cash flows or operating results.

27. RELATED PARTY TRANSACTIONS

Apart from the remuneration paid to the directors of the Company (being the key management personnel) as disclosed in note 8, there were no other significant related party transactions entered into by the Group.

28. CONTINGENT LIABILITIES

The Group did not have any significant contingent liabilities at the balance sheet date (2005: Nil).

The Company has given guarantees in favour of certain banks to the extent of approximately HK$245,100,000 (2005: HK$198,700,000) in respect of banking facilities granted to certain subsidiaries of the Company. As at 30 September 2006, the banking facilities utilised by these subsidiaries amounted to approximately HK$123,907,000 (2005: HK$86,672,000).

29. 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 2006, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group	
	2006	2005
	HK$'000	*HK$'000*
Within 1 year	**1,935**	578
In 2 to 5 years, inclusive	**1,108**	72
	3,043	650

The Company did not have any operating lease arrangements as at 30 September 2006 (2005: Nil).

30. CAPITAL COMMITMENTS

As at 30 September 2006, the Group and the Company had no significant capital commitments (2005: Nil).

31. ULTIMATE HOLDING COMPANY

The directors of the Company consider that the ultimate holding company of the Company as at 30 September 2006 was Equity Base Holdings Limited, which was incorporated in the British Virgin Islands.

32. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 28 December 2006.