



MAN SANG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Website: <http://www.man-sang.com>

(Stock Code: 938)

FINAL RESULTS FOR THE FINANCIAL YEAR ENDED MARCH 31, 2004

RESULTS

The Board of Directors (the “Directors”) of Man Sang International Limited (the “Company”) is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively referred to as the “Group”) for the year ended March 31, 2004, together with the comparative figures for the previous year, as follows:–

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (restated)
Turnover		382,123	323,082
Cost of sales		<u>(277,976)</u>	<u>(233,160)</u>
Gross profit		104,147	89,922
Investment income	4	1,664	982
Other operating income		8,130	11,568
Selling expenses		(7,409)	(6,635)
Administrative expenses		(72,870)	(57,921)
Revaluation increase (decrease) on leasehold land and buildings		5,823	(1,390)
Revaluation increase (decrease) on investment properties		855	(3,025)
Net unrealised gain (loss) on listed other investments		2,752	(3,606)
Impairment loss on investment securities		<u>(1,730)</u>	<u>–</u>
Profit from operations	3	41,362	29,895
Loss on disposal of subsidiaries		–	(438)
Finance costs	5	(380)	(1,629)
Share of results of an associate		–	(60)
Profit before taxation		40,982	27,768
Taxation	6	<u>(3,802)</u>	<u>(3,527)</u>
Profit before minority interests		37,180	24,241
Minority interests		–	323
Net profit for the year	7	<u>37,180</u>	<u>24,564</u>
Earnings per share			
Basic	8	<u>4.50 cents</u>	<u>2.97 cents</u>

Notes:

1. Principal accounting policies and prior year adjustment

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and certain investment in securities, and in accordance with the accounting principles generally accepted in Hong Kong.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2003, except as described below.

Income taxes

In the current year, the Company has adopted, for the first time, Statement of Standard Accounting Practice No. 12 (Revised) "Income Taxes" which is one of the Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Society of Accountants ("HKSA"). The term of HKFRS is inclusive of Statements of Standard Accounting Practice ("SSAP(s)") and Interpretations approved by the HKSA.

The principal effect of the implementation of SSAP 12 (Revised) is in relation to deferred tax. In previous years, partial provision was made for deferred tax using the income statement liability method, i.e. a liability was recognized in respect of timing differences arising, except where those timing differences were not expected to reverse in the foreseeable future. SSAP 12 (Revised) requires the adoption of a balance sheet liability method, whereby deferred tax is recognized in respect of all temporary 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, with limited exceptions. In the absence of any specific transitional requirements in SSAP 12 (Revised), the new accounting policy has been applied retrospectively. Comparative amounts have been restated accordingly. As a result of this change in policy, the opening accumulated profits at April 1, 2003 have been decreased by HK\$314,000 (April 1, 2002: increased by HK\$1,710,000). The balances on the Group's investment property revaluation reserve and other property revaluation reserve at April 1, 2003 have been decreased by HK\$10,947,000 and HK\$706,000, respectively (April 1, 2002: HK\$13,591,000 and HK\$610,000, respectively). In addition, it has resulted in an increase in profit of HK\$550,000 for the year ended March 31, 2004 (year ended March 31, 2003: a decrease of HK\$2,024,000).

2. Segment information

Business Segments

For management purposes, the Group is currently organised into two operating segments – pearls and property investment. The following segments are the basis on which the Group reports its primary segment information:

- Pearls – Purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and jewelry products
- Property investment – Leasing of properties

Segment information about these businesses is presented below:

For the year ended March 31, 2004

	Pearls <i>HK\$'000</i>	Property Investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue			
External sales or rentals	382,123	6,220	388,343
Results			
Segment results	36,315	(1,899)	34,416
Unallocated other operating income			10,239
Unallocated corporate expenses			(3,293)
Profit from operations			41,362
Finance costs			(380)
Profit before taxation			40,982
Taxation			(3,802)
Profit before minority interests			37,180
Minority interests			–
Net profit for the year			37,180

For the year ended March 31, 2003

	Pearls <i>HK\$'000</i>	Property Investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue			
External sales or rentals	323,082	7,455	330,537
Results			
Segment results	37,286	(837)	36,449
Unallocated other operating income			5,095
Unallocated corporate expenses			(11,649)
Profit from operations			29,895
Loss on disposal of subsidiaries	(438)	–	(438)
Finance costs			(1,629)
Share of results of an associate			(60)
Profit before taxation			27,768
Taxation			(3,527)
Profit before minority interests			24,241
Minority interests			323
Net profit for the year			24,564

3. Profit from operations

Profit from operations has been arrived at after charging:

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Depreciation and amortization	7,366	6,971
Loss on disposal of property and equipment	426	603
Loss on disposal of investment properties	2,598	–
Loss on demolition of investment properties	2,421	–
	<u>2,421</u>	<u>–</u>

4. Investment income

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest income	245	620
Dividends received from listed other investments	428	362
Gain on disposal of listed other investments	991	–
	<u>1,664</u>	<u>982</u>

5. Finance costs

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Interest on:		
Bank borrowings wholly repayable within five years	380	1,266
Bank borrowings not wholly repayable within five years	–	363
	<u>380</u>	<u>1,629</u>

6. Taxation

	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Current tax:		
Hong Kong	4,990	2,451
People's Republic of China, other than Hong Kong (the "PRC")	271	2,077
	<u>5,261</u>	<u>4,528</u>
(Over) underprovision in prior year		
Hong Kong	283	–
PRC	(1,192)	–
	<u>(909)</u>	<u>–</u>
	<u>4,352</u>	<u>4,528</u>

Deferred tax:		
Current year	(296)	(1,001)
Attributable to a change in tax rate	(254)	–
	<u>(550)</u>	<u>(1,001)</u>
	<u>3,802</u>	<u>3,527</u>

Hong Kong Profits Tax is calculated at a rate of 17.5% (2003: 16%) of the estimated assessable profit for the year. In June 2003, the Hong Kong Profits Tax rate was increased from 16% to 17.5% with effect from the 2003/2004 year of assessment. The effect of this increase has been reflected in the calculation of current and deferred tax balances at March 31, 2004.

A portion of the Group's profits neither arises in, nor is derived from, Hong Kong. Accordingly, that portion of the Group's profit is not subject to Hong Kong Profits Tax.

Income tax in the PRC is calculated at 15% of the income of the PRC subsidiaries for both years.

7. Reserves

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Accumulated profits	285,475	248,084
Translation reserve	4,542	4,488
Investment property revaluation reserve	38,623	–
Other property revaluation reserve	8,074	3,659
Merger reserve	(200)	(200)
Other non-distributable reserve	2,001	2,001
Share premium	68,209	75,728
	<u>406,724</u>	<u>333,760</u>

An analysis of movements on reserves is set out below:

Accumulated profits

Brought forward (as restated)	248,084	223,443
Net profit for the year	37,180	24,564
Release on depreciation of leasehold land and buildings	211	77
	<u>285,475</u>	<u>248,084</u>

Translation reserve

Brought forward	4,488	3,543
Exchange differences arising from translation of financial statements of operations outside Hong Kong	54	945
	<u>4,542</u>	<u>4,488</u>

Investment property revaluation reserve		
Brought forward (as restated)	–	2,456
Revaluation increase (decrease) on investment properties	37,473	(2,075)
Deferred tax liabilities arising on revaluation of properties	(1,343)	(381)
Reversal of deferred tax liabilities on demolition of investment properties	1,228	–
Release on demolition of investment properties	(3,009)	–
Release on disposal of investment properties	4,274	–
	<hr/>	<hr/>
Carried forward	38,623	–
	<hr/>	<hr/>
Other property revaluation reserve		
Brought forward (as restated)	3,659	3,421
Revaluation increase on leasehold land and buildings	4,682	411
Release on depreciation of leasehold land and buildings	(211)	(77)
Deferred tax liabilities arising on revaluation of properties	(56)	(96)
	<hr/>	<hr/>
Carried forward	8,074	3,659
	<hr/>	<hr/>
Merger reserve		
Brought forward and carried forward	(200)	(200)
	<hr/>	<hr/>
Other non-distributable reserve		
Brought forward and carried forward	2,001	2,001
	<hr/>	<hr/>
Share premium		
Brought forward	75,728	75,728
Capitalisation on bonus issue of shares	(7,519)	–
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Carried forward	68,209	75,728
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8. Earnings per share

The calculation of the basic earnings per share is based on the net profit for the year of HK\$37,180,000 (2003: HK\$24,564,000) and on 827,058,000 (2003: 827,058,000) shares in issue during the year.

The number of ordinary shares for both years for the purpose of basic earnings per share has been adjusted for the bonus issue approved pursuant to the annual general meeting held on August 6, 2003.

No diluted earnings per share have been presented for both years as there are no dilutive potential ordinary shares in issue for year ended March 31, 2004 and the exercise prices of the Company's outstanding share options for the year ended March 31, 2003 were higher than the average market price for shares.

The adjustments to comparative earnings per share, arising from the bonus issue and the change in accounting policies described in note 1 above, are as follows:

Reconciliation of earnings per share for the year ended March 31, 2003:

	<i>HK cents</i>
Reported figure before adjustments	3.54
Adjustment arising from the bonus issue	(0.33)
Adjustment arising from the adoption of SSAP 12 (Revised)	(0.24)
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Restated figure	2.97
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THE FINAL DIVIDEND

The Board of Directors does not recommend the payment of a final dividend for the year ended March 31, 2004 (2003: Nil).

PROPOSED BONUS ISSUE OF SHARES

The Board of Directors proposed a bonus issue of shares be made to shareholders whose names appear on the register of members on August 4, 2004 in the proportion of one bonus share for every ten shares held (the “Bonus Issue”). Based on the 827,058,023 shares in issue as at June 29, 2004, 82,705,802 bonus shares will be issued. The bonus shares will be credited as fully paid and will rank pari passu in all respects with the existing issued shares with effect from the date of issue, but not rank for the Bonus Issue. No fractional shares will be issued but will be aggregated and sold. The proceeds of sale will be retained for the benefit of the Company.

The Bonus Issue is conditional, inter alia, upon:

- (i) the passing by shareholders of the Company at the 2004 Annual General Meeting of an ordinary resolution approving the Bonus Issue; and
- (ii) the Listing Committee of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) granting the listing of and permission to deal in the bonus shares to be issued pursuant to the Bonus Issue.

BUSINESS REVIEW AND PROSPECTS

With global demand on South Sea pearls sustaining to grow, South Sea pearls (including white and gold South Sea pearls and Tahitian black pearls) continue to perform to be the largest share of our Group’s total turnover, representing approximately of 46.4% (2003: approximately 50%). South Sea pearls at present are very popular among international fashion designers in their jewelry designs and this trend will be expected to continue. In order to capitalize on this growth, the Group has been strengthening on its marketing and sales efforts on South Sea pearls and through its well established purchasing networks, our Group can purchase top quality South Sea pearls in large amount and at competitive prices. In addition, our Group also places emphasis on continual promotional and marketing efforts on South Sea pearls in order to capture the market demand and to further strengthen our Group’s market share. On top of it, the Group also provides value-added services including jewelry designs to customers to increase our sales.

On the jewelry product side, the Group has been exploring on new potential customers during the year. We have also further expanded on our marketing and distribution network through marketing efforts such as attending international trade shows and exhibitions, marketing campaigns and advertisements. In return, we have successfully increased our jewelry product’s market share in Europe covering various new segments of clients like retail chains and department stores. We keep on strengthening our own production capabilities and product quality so as to support on our increased orders. At the same time, we have built up our own design team offering unique and wider range of choices to our jewelry customers.

2003 was a volatile year on Hong Kong economy. Further to the negative impact on consumer spending on SARS in the Group’s first quarter of the year, the economy has recovered quickly in the latter part of the year. We have closely monitored on the change of the market environment in response to customers’ taste and demand, while using various flexible pricing strategies to engage our customers to ensure we are efficiently responding to the market situation which in turn having pressure on our profit margin.

We believe that the economy will continue to grow in a healthy and steady pace despite there are policies taken by the China government recently to avoid overheating of China economy. We believe that offering the right products/services mix to our customers will bring the best results to our operations. We further strengthen our core pearl business and expand on assembled jewelry in our product mix simultaneously through our aggressive marketing and flexible pricing strategies. On top of these tactics, we continue to conduct effective cost controls measures, we are optimistic in achieving better results. With the PRC's entry into the World Trade Organization and the overall improvement in worldwide economy, we look forward to having a prosperous year ahead.

FINANCIAL RESOURCES AND LIQUIDITY

- (a) At March 31, 2004, the Group had working capital of HK\$247.7 million, which included a cash balance of HK\$90.5 million, compared with working capital of HK\$276.6 million, which included a cash balance of HK\$75.6 million at March 31, 2003. The current ratio as at March 31, 2004 was 6.5 compared to 10.4 as at March 31, 2003. Net cash inflow from operating activities for the year ended March 31, 2004 was HK\$80.2 million as compared to HK\$32.6 million for the year ended March 31, 2003.
- (b) The Company had available working capital facilities of HK\$95.5 million in total with various banks at March 31, 2004. Such banking facilities include letter of credit arrangements, import loans, overdraft and other facilities commonly used in the jewelry business. All such banking facilities bear interest at floating rates generally offered by banks in Hong Kong and PRC, and are subject to periodic review. At March 31, 2004, the Group did not utilize sub-credit facilities. The Group believes that funds to be generated from internal operations and the existing banking facilities will enable the Group to meet anticipated future cash flow requirements.
- (c) At March 31, 2004, the Group had pledged the following assets to banks to secure bank borrowings and general banking facilities:

	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Carrying amount of leasehold land and buildings	74,980	39,050
Carrying amount of investment properties	132,662	83,894
	<hr/>	<hr/>
	207,642	122,944
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- (d) The Group's exposure to foreign currency is mainly in US dollars (sales transactions) and Renminbi (purchases of pearls). The Group does not foresee a substantial exposure to fluctuations in exchange rate since i) Hong Kong dollars remained pegged to US dollars, the Company's sales proceeds have had minimal exposure to foreign currency fluctuations; ii) Renminbi is relatively stable in relation to other currencies, thus the Group does not commit in any exchange rate hedges.

GEARING RATIO

At March 31, 2004, the Group had total debts amounted to HK\$11.6 million, equal to 2.4% of shareholders' funds of HK\$489.4 million. The gearing ratio was 5.4% at March 31, 2003 as the Group had total debts of HK\$22.0 million and shareholders' funds of HK\$408.9 million after incorporating the restatement adjustment made as a result of the adoption of SSAP 12 (Revised) on "Income Taxes" in 2003.

USE OF PROCEEDS FROM ISSUE OF NEW SHARES

The proceeds from issue of new shares by the Company in September 1997, net of listing expenses, were approximately HK\$123.4 million. The net proceeds have been fully utilized as stated in the prospectus except for the following as utilized balance, which has been placed short term bank deposits in Hong Kong Banks:

- (a) approximately HK\$26 million for the expansion of processing facilities of Chinese cultured pearls and freshwater pearls; and
- (b) approximately HK\$23 million for the investment in pearl farms in major pearl producing countries.

The net proceeds from the placing of 40,000,000 new shares by the Company in August 1999 were approximately HK\$12.75 million. The net proceeds have been fully utilized for the purpose as stated in the announcement dated August 6, 1999 except for approximately HK\$3 million for retail market development in pearl products in the PRC being unused. The said balance was deposited in various banks in Hong Kong.

On July 3, 2003, the Board of Directors (the “Board”) announced that it is in the best interests of the Company and the Company’s shareholders to modify the usage of the unutilized balance of the proceeds and changed the use of unutilized proceeds of approximately HK\$52 million to the following purposes:–

- (i) approximately HK\$20 million for the expansion and improvement of the jewelry manufacturing facilities;
- (ii) approximately HK\$12 million for the promotion of pearl and jewelry businesses;
- (iii) approximately HK\$20 million for general working capital of the Group.

At March 31, 2004, the HK\$52 million was unutilized with the same usage as disclosed on July 3, 2003. The said amount is deposited in various banks in Hong Kong.

HUMAN RESOURCES

The Group has approximately 1,096 (2003: approximately 969) employees. The majority of these employees work in the PRC. Remuneration of the Group’s employees includes basic salaries and bonuses. The Group incurred staff cost of approximately HK\$40.9 million for the year ended March 31, 2004 (2003: approximately HK\$35.2 million). In order to attract and retain a high caliber of capable and motivated human resources, the Company offers share options to staff based on the individual performance and the achievement of the Company’s objectives and targets.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Thursday, July 29, 2004 to Wednesday, August 4, 2004, both dates inclusive.

In order to qualify for the Bonus Issue, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company’s branch registrar in Hong Kong, Secretaries Limited, at Ground Floor, BEA Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not later than 4:00 p.m. on Wednesday, July 28, 2004.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company during the year.

CORPORATE GOVERNANCE

The Company has complied throughout the year with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange.

PUBLICATION OF FURTHER INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

All the financial and other related information of the Company required by paragraphs 45(1) to 45(3) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website in due course.

On behalf of the Board
CHENG CHUNG HING
Chairman

Hong Kong, June 29, 2004

“Please also refer to the published version of this announcement in The Standard”.