



Man Sang International Limited

(Incorporated in Bermuda with limited liability)

Annual Report

2001

*“The ultimate name in
Pearls”*

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CORPORATE INFORMATION

Directors

Executive Directors:

Cheng Chung Hing (*Chairman*)
Cheng Tai Po (*Deputy Chairman*)
Yan Sau Man, Amy

Independent Non-Executive Directors:

Alexander Reid Hamilton
Yuen Ka Lok, Ernest

Company Secretary

Ho Suk Han, Sophia

Registered Office

Claredon House, 2 Church Street,
Hamilton HM11, Bermuda

Head Office and Principal

Place of Business

21st Floor, Railway Plaza,
39 Chatham Road South,
Tsimshatsui, Kowloon,
Hong Kong

Principal Bankers

The Hongkong and Shanghai Banking Corporation Limited

Mongkok Branch
673 Nathan Road,
Mongkok, Kowloon
Hong Kong

Standard Chartered Bank

10th Floor,
Standard Chartered Bank Building,
4-4A Des Voeux Road Central,
Hong Kong

Auditors

Deloitte Touche Tohmatsu

Certified Public Accountants
26th Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong

Principal Share & Warrant Registrar

Butterfield Corporate Services Limited

65 Front Street, Hamilton,
Bermuda

Branch Share & Warrant Registrar in Hong Kong

Secretaries Limited

5th Floor, Wing On Centre,
111 Connaught Road Central,
Hong Kong

Website

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

CORPORATE PROFILE

Man Sang International Limited (“the Company”) together with its subsidiaries (the “Group”), is the first company engaged in the pearl business that is listed in Hong Kong. As one of the leading pearl merchants in Hong Kong, the Group is also one of the largest processors and suppliers of Chinese cultured pearls in the world.

The Group was founded in the early 1980’s. It is principally engaged in the purchasing, processing, assembling, merchandising and wholesale distribution of pearls and pearl jewelry products, which include Chinese cultured pearls, Chinese freshwater pearls, Japanese cultured pearls, Tahitian pearls and South Sea pearls. The products of the Group are principally sold to jewelry manufacturers, wholesale jewelry distributors and mass jewelry merchandisers throughout the world.

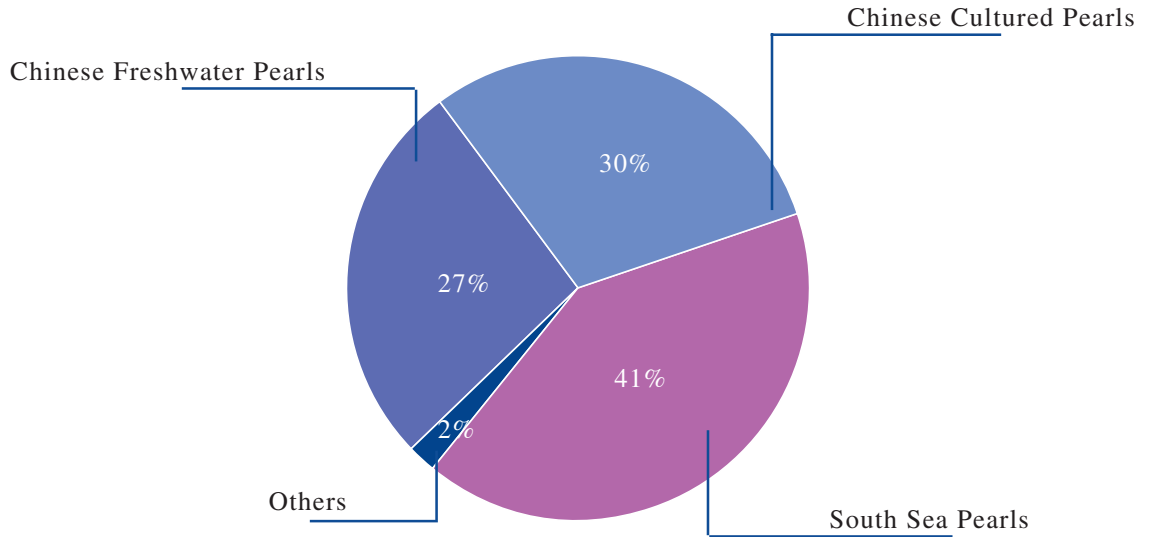
The Group operates its own pearl processing facilities in Man Sang Industrial City located in Shenzhen, the People’s Republic of China (the “PRC”). Altogether, there are 24 blocks of buildings in the industrial city with a gross floor area of approximately 550,000 square feet, the Group at present utilizes most of the units in five blocks while the rest are leased to third parties.

The Group is also engaged in e-commerce, which the Group believes can help it achieve a higher operational efficiency in the long run by optimizing costs and reaching out for unlimited new customers.

FINANCIAL REVIEW

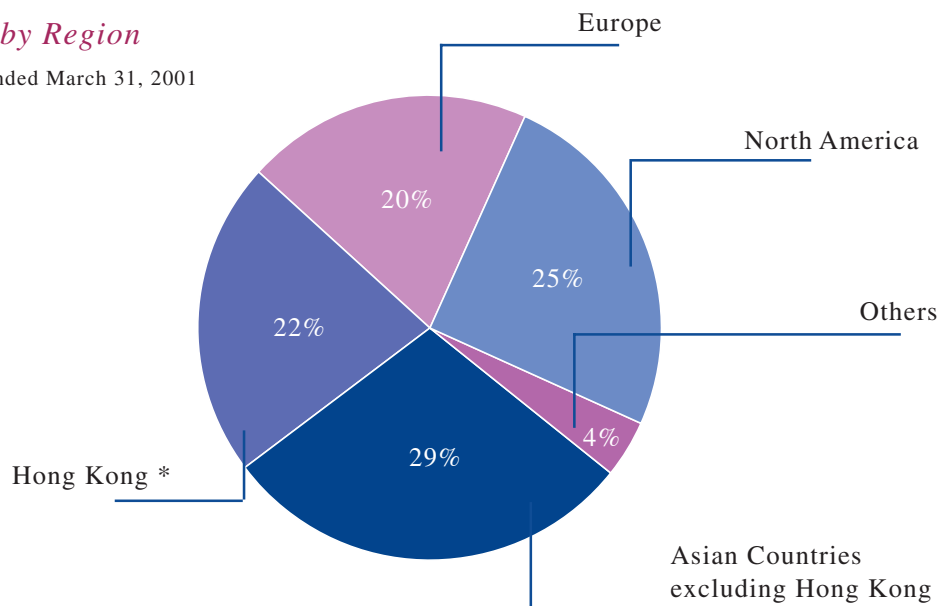
Turnover by Products

for the year ended March 31, 2001



Turnover by Region

for the year ended March 31, 2001



* A majority of sales in Hong Kong are for exporters and manufacturers

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. As at March 31, 2001, the net proceeds have been fully utilized as stated in the prospectus except for the following unutilized balance, which has been placed on 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. As at March 31, 2001, 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 pearls and pearl products in the PRC being unused. The said balance were deposited in various banks in Hong Kong.

Sales and Customers

The Company's customers consist principally of wholesale distributors and mass merchandisers in Europe, the United States, Hong Kong and other Asian countries. The Company's policy is to denominate all its sales in either US dollars or Hong Kong dollars. Since Hong Kong dollar remained "pegged" to the US dollar throughout the financial year, the Board of Directors does not anticipate significant risks of fluctuations in the exchange rate between the US dollar and the Hong Kong dollar in the foreseeable future.

For the year ended March 31, 2001, the five largest customers of the Company accounted for approximately 25.3% (2000: 20.1%) of the Company's sales with the largest customer accounted for approximately 7.5% (2000: 6.1%) of the Company's sales.

FINANCIAL REVIEW

Purchase and Suppliers

For the year ended March 31, 2001, approximately 38.9% of the Company's purchases was made in Renminbi, with the remaining amount settled in Hong Kong dollars, US dollars and Japanese Yen. It is the Company's policy not to enter into derivative contracts unless the Company considers if necessary to hedge against foreign exchange fluctuations. No such derivative contract was entered into during the year.

For the year ended March 31, 2001, the five largest suppliers of the Company accounted for approximately 40.4% (2000: 37.5%) of the Company's total purchases, with the largest supplier accounted for approximately 12.1% (2000: 10.5%) of the Company's total purchases.

None of the Directors, their respective associates (as defined in the Listing Rules) or any shareholder of the Company (who or which, to the knowledge of the Directors, owns more than 5% of the issued share capital of the Company) has any interest in any of the Group's five largest suppliers.

Financial Resources and Liquidity

- (a) At March 31, 2001, the Group had working capital of HK\$204.9 million, which included a cash balance of HK\$114.0 million, compared with working capital of HK\$289.2 million, which included a cash balance of HK\$134.5 million at March 31, 2000. The decrease in working capital is mainly due to a net decrease in cash and cash equivalent by HK\$23.1 million, purchase of investment properties of HK\$37.4 million, purchase of other investments which are listed investments of HK\$16.1 million and an increase in bank borrowings of HK\$25.0 million for the purchase of an investment property.
- (b) The Company had available working capital facilities of HK\$100 million in total with various banks at March 31, 2001. 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 based on prime lending rates, and are subject to periodic review. At March 31, 2001, the Group utilized approximately HK\$15.9

FINANCIAL REVIEW

million of its 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, 2001, the Group had pledged the following assets to banks to secure bank borrowings and general banking facilities:

	2001	2000
	HK\$'000	HK\$'000
Net book values of leasehold properties	57,432	73,812
Net book values of investment properties	72,625	26,596
Bank deposits	64,879	62,330
	194,936	162,738

- (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, 2001, the Group had total debts amounted to HK\$123.9 million, equal to 33.8% of shareholders' funds of HK\$366.9 million. The gearing ratio was 24.1% at March 31, 2000 as the Group had total debts of HK\$101.7 million and shareholders' funds of HK\$423.2 million.

CHAIRMAN'S STATEMENT

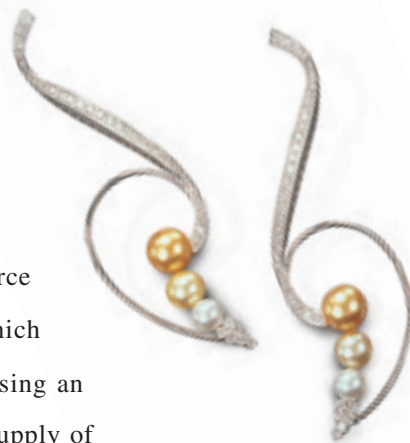


On behalf of the Board of Directors, I would like to present the results of the Group for the year ended March 31, 2001.

In the fiscal year of 2000/01, the Group recorded a turnover of approximately HK\$311.1 million, representing an increase of 11.4% as compared to last year.

The U.S. economy, acting as the global economic indicator, slowed down with weakened consumer sentiment during the year under review. Buyers were highly cautious when placing orders. While in Europe, the Euro was too weak to encourage imports. Despite all these, however, the Group managed to minimize the adverse effects of the unfavourable global economy by virtue of its solid experience in the industry and flexible marketing strategies.

Last year saw the Group's initial endeavors to explore e-commerce and continuous efforts to expand its pearl jewelry business, which both required investment to put up new infrastructure, thus causing an inevitable increase in administrative expenses. In addition, the supply of Chinese pearls, which referred to freshwater pearls in particular, had increased significantly and continuously dropped in price. To cope with the market trend, the Group decided to write down value on certain inventories, to a relatively large extent, at approximately HK\$65.4 million. For these reasons, the Group recorded a loss to shareholders of approximately HK\$49.8 million. After the write-down on inventories, the Group will become more flexible in its marketing and sales strategies and better-prepared for future growth.



*Silver Award of
The 3rd International
South Sea Pearl Jewellery
Design Competition*

CHAIRMAN'S STATEMENT

Despite the fact that the Group was not performing well last year, it has always been financially sound. As at March 31, 2001, the cash on hand was approximately HK\$114.0 million, which has been sufficient to sustain the Group's daily operations and expenses. The gearing ratio was 33.8%.

The Group is now modifying its business strategies and implementing stringent cost control measures. It is confident that its business will be back to the right track very soon.

The Final Dividend

The Board of Directors does not recommend the payment of a final dividend for the year ended March 31, 2001 (2000: Nil).

Business Review & Prospects

Traditional Pearl Business:

In the year under review, the quality of South Sea pearls kept on improving. With a slight increase in supply, its price was adjusted accordingly and became more competitive and attractive. Strong global demand for South Sea pearls had made it well sought after in the jewelry market. In view of this, the Group promoted South Sea pearls vigorously to further strengthen its market share. During the year, sales of South Sea pearls were remarkable, soaring by 82% as compared to last year. It accounted for approximately 42% of the Group's total turnover, increasing from 25% in the previous year.



CHAIRMAN'S STATEMENT



The supply of Chinese freshwater pearls and Chinese cultured pearls increased significantly in the year and their prices continued to soften. Buyers' confidence was affected. Despite their abundant supply, their quality was improving. Once prices are stabilized, another surge in the demand cycle will boost the market. The management believes that the price of both types of pearls will soon be stable, and has every confidence in the growth in their demand.

The demand for pearl jewelry products was rising. The Group underwent an internal restructure on product development. Expertise and vigorous efforts were put on South Sea pearl and Chinese freshwater pearl jewelry in particular, and integrating with various value-added services to suit the demand of different countries. Though the Group is still incubating its pearl jewelry business, it firmly believes that it will have a promising future and will bring better returns to the Group.



The PRC economy has been growing with huge potential in the jewelry retail market. To capture these business opportunities, the Group had set up a total of six jewelry outlets in the PRC, in Nanjing, Shenyang, Dailin and Hangzhou respectively. All these outlets were performing steadily. Following the PRC's accession into the WTO, she will definitely have an economic take-off. The demand for jewelry will surge and the tide will turn in the Group's favor.

CHAIRMAN'S STATEMENT

E-Commerce Business:

The Group is engaged in e-business through its subsidiary, Cyber Bizport Limited. Its B2C website, www.4376zone.com, had celebrated its first anniversary in the year. Despite that its performance was not as good as expected, the Group will dedicate itself to diversifying its contents, products and markets to provide more pleasure in online shopping. The Group will persist in stringent costs control, minimize expenses and so strengthen the effectiveness of its operations.



Additionally, the Group is still developing its B2B trading platform. This new marketplace will re-engineer and facilitate operation efficiency among business partners, such as suppliers and customers.



Conclusion

On behalf of the Board of Directors, I would like to take this opportunity to extend my sincere thanks to the Group's shareholders, customers and suppliers for their continued support and trust. I would also like to thank all my colleagues for their efforts and contributions in the past. The Group will seek every opportunity to achieve the best possible returns for its shareholders.

Cheng Chung Hing

Chairman

Hong Kong, June 28, 2001

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Executive Directors

Mr. CHENG Chung Hing, aged 40, is the Chairman of the Company. Mr. Cheng, with nearly 20 years of experience in the pearl business, is responsible for the overall management of the Group as well as the formulation and development of the Group's corporate policies and business strategies. Mr. Cheng was appointed as Honorary Professor, Science of Logistics and Faculty of Engineering, University of Shanghai in 1998. Mr. Cheng received the "Hong Kong Young Industrialists Award", the "Distinguished International Entrepreneur of the Year Award" and the title of Adjunct Professor of the College of Business from San Francisco State University in the US in 1997. He is currently a general committee member of the Hong Kong Jewellery Manufacturer's Association.

Mr. CHENG Tai Po, aged 49, is the Deputy Chairman of the Company. Mr. Cheng has nearly 20 years of experience in the pearl business. Mr. Cheng is responsible for the purchasing and processing of pearls and has developed a special pearl processing technique, as well as a special grading system which is used by a large number of the Group's customers. Over the years, Mr. Cheng has developed close relationships with pearl suppliers and has built up a strong and reliable supply network. He is a Board Member of the Zhanjiang Ocean University, the PRC. Mr. Cheng Tai Po is the brother of Mr. Cheng Chung Hing.

Ms. YAN Sau Man, Amy, aged 38, is the Director of Sales of the Company. Ms. Yan joined the Group in 1984. Ms. Yan left the Group in October 1986 and re-joined the Group in June 1987. She has over 15 years of sales and marketing experience in the pearl business. Ms. Yan is responsible for the formulation and implementation of the Group's overall sales and marketing strategies.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Independent Non-Executive Directors

Mr. Alexander Reid HAMILTON, aged 59, is the Independent Non-Executive Director of the Company. Mr. Hamilton is a director of Boto International Holdings Limited, CITIC Pacific Limited, COSCO International Holdings Limited, COSCO Pacific Limited, Esprit Holdings Limited, DBS Kwong On Bank Limited and The Swank Shop Limited. He is a member of the Institute of Chartered Accountants of Scotland, a Fellow of the Hong Kong Society of Accountants and a Fellow of the Institute of Directors. He was a partner in PricewaterhouseCoopers for 16 years and has over 22 years of audit and accounting experience.

Mr. YUEN Ka Lok, Ernest, aged 38, is the Independent Non-Executive Director of the Company. Mr. Yuen is a solicitor and a partner of Messrs. Yuen & Partners. He has nearly 10 years of extensive experience in general litigation and commercial work. Mr. Yuen received his Bachelor's degree of Commerce from University of Toronto. Mr. Yuen is a member of the Law Society of Hong Kong.

Senior Management

Ms. HO Suk Han, Sophia, aged 32, is the Secretary and the Human Resources and Administration Manager of the Company. She joined the Group in 1997. Ms. Ho has over 10 years of experience in company secretarial work in an international accounting firm and several listed companies in Hong Kong. Ms. Ho holds a Bachelor's Degree of Arts (Honour) in Accountancy in the City University of Hong Kong and is an Associate of The Hong Kong Institute of Company Secretaries and The Institute of Chartered Secretaries and Administrators in Hong Kong Limited.

DIRECTORS AND SENIOR MANAGEMENT PROFILE

Mr. LEUNG Hon Shing, aged 36, is the Assistant Financial Controller of the Group. He has over 10 years of experience in the finance and accounting field. Prior to joining the Group in 1996, he had worked in an international accounting firm. He is a Fellow of the Association of the Chartered Certified Accountants, Associates of the Hong Kong Society of Accountants, the Hong Kong Institute of Company Secretaries, and the Institute of Chartered Secretaries and Administrators in Hong Kong Limited. He has graduated from The Hong Kong Polytechnic with a Professional Diploma in Company Secretaryship and Administration.

Mr. CHENG Sai, aged 44, is the Deputy General Manager of Man Hing Industry Development (Shenzhen) Co., Ltd. (“Man Hing”). He joined Man Hing in 1992. He has over 10 years of experience in the pearl business. He is responsible for the overall operations of Man Hing. Mr. Cheng Sai is the brother of Mr. Cheng Chung Hing and Mr. Cheng Tai Po.

Mr. HOU Xiao Xia, aged 37, is the Chief Accountant of Man Hing, Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd. and Tangzhu Jewellery Goods (Shenzhen) Co., Ltd. He has over 10 years of experience in accounting and management. Prior to joining the Group in 1995, he had worked in a PRC subsidiary of a Hong Kong listed company as Deputy General Manager in charge of finance. He is responsible for overall accounting of the Group’s companies in the PRC. He graduated from the College of Finance and Business of Anhui, the PRC and is a qualified accountant in the PRC.

Mr. XU Zhu Qi, aged 46, is responsible for business management. Prior to joining the Group in 1995, he had over 10 years of experience as a manager in several PRC enterprises.

DIRECTORS' REPORT

The directors present their annual report and the audited financial statements for the year ended March 31, 2001.

PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The Group is principally engaged in the purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and pearl jewelry products. The principal activities of each of the subsidiaries are set out in note 34 to the financial statements.

SUBSIDIARIES

During the year, the Group entered into an agreement to acquire all the issued share capital of Intimex Business Solutions Company Limited at a consideration of HK\$2,100,000 which was satisfied by an issue of 42,000,000 new shares of HK\$0.05 each in Cyber Bizport Limited, a wholly owned subsidiary of the Company, representing 21% of the enlarged issued share capital of Cyber Bizport Limited.

Details of the Company's subsidiaries at March 31, 2001 are set out in note 34 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended March 31, 2001 are set out in the consolidated income statement on page 28 of the annual report.

The directors do not recommend the payment of a dividend.

RESERVES

Details of the movements in the reserves of the Group and the Company during the year are set out in note 24 to the financial statements.

DIRECTORS' REPORT

FINANCIAL SUMMARY

A summary of the results of the Group for the five financial years ended March 31, 2001 and of the assets and liabilities of the Group at March 31, 1998, 1999, 2000 and 2001 is set out on page 80 to 81 of the annual report.

INVESTMENT PROPERTIES

The Group's investment properties were revalued at March 31, 2001 at approximately HK\$115.4 million. The revaluation resulted in a deficit amounting to approximately HK\$6.4 million, which has been charged to the investment property revaluation reserve.

Details of movements in the investment properties of the Group are set out in note 11 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group are set out in note 12 to the financial statements.

MAJOR PROPERTIES

Details of the major properties of the Group at March 31, 2001 are set out on page 82 to 84 of the annual report.

SHARE CAPITAL AND WARRANTS

Details of movements during the year in the share capital and outstanding warrants of the Company are set out in notes 21 and 22, respectively, to the financial statements.

SHARE OPTIONS

Information on the Company's share option scheme and movements in the share options of the Company during the year are set out in note 23 to the financial statements.

DIRECTORS' REPORT

DIRECTORS

The directors of the Company during the year and up to the date of this report were:

Executive directors:

Mr. Cheng Chung Hing (*Chairman*)

Mr. Cheng Tai Po (*Deputy Chairman*)

Ms. Yan Sau Man, Amy

Mr. Wong Ka Ming (resigned on February 20, 2001)

Non-executive director:

Mr. Hung Kwok Wing (resigned on February 28, 2001)

Independent non-executive directors:

Mr. Alexander Reid Hamilton

Mr. Yuen Ka Lok, Ernest

In accordance with Article 87 of the Company's Bye-Laws, Mr. Alexander Reid Hamilton retires by rotation and, being eligible, offers himself for re-election. The term of office for each non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

DIRECTORS' SERVICE CONTRACTS

The executive directors have entered into services agreements with the Company for a fixed term of three years from September 1, 2000.

Save as disclosed above, no director proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

(1) Interests in the Company

(a) Shares and warrants

At March 31, 2001, the interests of the directors in the share capital of the Company as recorded in the register maintained by the Company pursuant to Section 29 of the Securities (Disclosure of Interests) Ordinance (“SDI Ordinance”) and in the warrants of the Company were as follows:

Name of director	Number of ordinary shares				Number of warrants			
	Personal interests	Family interests	Corporate interests	Other interests	Personal interests	Family interests	Corporate interests	Other interests
			(Note)				(Note)	
Mr. Cheng Chung Hing	-	-	426,000,000	-	-	-	31,515,151	-
Mr. Cheng Tai Po	6,506,400	-	426,000,000	-	1,314,424	-	31,515,151	-

Note: These shares and warrants were indirectly owned by Cafoong Limited, a company incorporated in the British Virgin Islands, through an indirect interest in Man Sang International (B.V.I.) Limited, a company which directly holds these 426,000,000 shares and 31,515,151 warrants. Cafoong Limited indirectly holds a 100% equity interest in Man Sang International (B.V.I.) Limited through Man Sang Holdings, Inc., in which Cafoong Limited holds 62.42% of the common stock and all the Series A preferred stock at March 31, 2001, which totally represent 74.94% of the voting rights of Man Sang Holdings, Inc.. Mr. Cheng Chung Hing and Mr. Cheng Tai Po own 60% and 40% of the issued share capital of Cafoong Limited, respectively.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

(1) **Interests in the Company** *(Continued)*

(b) Share options

The directors had personal interests in share options to subscribe for shares in the Company as follows:

- (i) Share options granted on October 16, 1997, each of which enables the holder to subscribe for one share in the Company at an exercise price of HK\$0.6208:

Name of director	Number of share options			
	At 4.1.2000	Granted and exercised during the year	Expired during the year	At 3.31.2001
Mr. Cheng Chung Hing	10,000,000	–	(10,000,000)	–
Mr. Cheng Tai Po	10,000,000	–	(10,000,000)	–
Ms. Yan Sau Man, Amy	5,000,000	–	(5,000,000)	–

- (ii) Share options granted on December 3, 1997, each of which enables the holder to subscribe for one share in the Company at an exercise price of HK\$0.4460:

Name of director	Number of share options			
	At 4.1.2000	Granted and exercised during the year	Expired during the year	At 3.31.2001
Mr. Cheng Chung Hing	1,800,000	–	(1,800,000)	–
Mr. Cheng Tai Po	1,800,000	–	(1,800,000)	–

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

(1) Interests in the Company (Continued)

(b) Share options (Continued)

- (iii) Share options granted on November 16, 1999, each of which enables the holder to subscribe for one share in the Company at an exercise price of HK\$0.2133 (initial exercise price was HK\$0.2560, adjusted on August 3, 2000 pursuant to the 1 to 5 bonus issue of shares of the Company):

Name of director	Number of share options		
	At 4.1.2000	Adjusted	
		on 8.3.2000	At 3.31.2001
		<i>(Note)</i>	
Mr. Cheng Chung Hing	1,300,000	260,243	1,560,243
Mr. Cheng Tai Po	1,300,000	260,243	1,560,243
Ms. Yan Sau Man, Amy	2,000,000	400,375	2,400,375

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

(1) **Interests in the Company** *(Continued)*

(b) Share options (Continued)

- (iv) Share options granted on April 28, 2000, each of which enables the holder to subscribe for one share in the Company at an exercise price of HK\$0.2475 (initial exercise price was HK\$0.297, adjusted on August 3, 2000 pursuant to the 1 to 5 bonus issue of shares of the Company):

Name of director	Number of share options			At 3.31.2001
	Granted on 4.28.2000	Adjusted on 8.3.2000	Cancelled during the year	
		(Note)		
Mr. Cheng Chung Hing	10,000,000	2,000,000	–	12,000,000
Mr. Cheng Tai Po	10,000,000	2,000,000	–	12,000,000
Ms. Yan Sau Man, Amy	5,000,000	1,000,000	–	6,000,000
Mr. Wong Ka Ming	1,000,000	200,000	(1,200,000)	–

Note: Number of share options adjusted on August 3, 2000 pursuant to the 1 to 5 bonus issue of shares of the Company.

No share options were exercised by the directors of the Company during the year.

All options are exercisable within a period of two years commencing from six months after respective date of acceptance.

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

(2) Interests in associated corporation – Man Sang Holdings, Inc. (“MSH”)

Name of director	Number of shares of common stock of US\$0.001 each in MSH held				Number of stock options of MSH held (Note ii)			
	Personal	Family	Corporate	Other	Personal	Family	Corporate	Other
	interests	interests	interests	interests	interests	interests	interests	interests
	<i>(Note i)</i>							
Mr. Cheng Chung Hing	-	-	2,750,000	-	100,000	-	-	-
Mr. Cheng Tai Po	-	-	2,750,000	-	100,000	-	-	-
Ms. Yan Sau Man, Amy	-	-	-	-	100,000	-	-	-

Notes:

- (i) These shares were directly owned by Cafoong Limited, a company incorporated in the British Virgin Islands. Cafoong Limited holds 62.42% of the common stock and all the Series A preferred stock of MSH at March 31, 2001, which totally represent 74.94% of the voting rights of MSH. Mr. Cheng Chung Hing and Mr. Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong Limited, respectively.
- (ii) The stock options were granted under the stock option plan of MSH adopted in October 1996 and entitle the holders thereof to subscribe for shares of common stock US\$0.001 each in MSH at a subscription price of US\$1.22 per share. 50% of the granted stock options are exercisable on or after September 16, 1998 and the balances are exercisable on or after September 16, 1999; however none of them may be exercised after September 16, 2007.

Save as disclosed above, none of the directors had any interests in any securities of the Company or any of its associated corporations as defined in the SDI Ordinance, and none of the directors, or their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right during the year.

CONNECTED TRANSACTIONS

- (1) At March 31, 2001, advances made by the Group to Cyber Bizport Limited and its subsidiaries, all of them are 79% owned subsidiaries of the Group, were outstanding in the aggregate amount of HK\$12,082,000. The advances were used to finance their working capitals. The advances are unsecured, interest-free and will be repayable on or before April 18, 2002.

- (2) Mr. Yuen Ka Lok, Ernest, an independent non-executive director, is a partner of Yuen & Partners. Yuen & Partners received professional fees of HK\$135,000 for the provision of legal services to the Group during the year.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed above, no contract of significance to which the Company, or any of its holding companies or subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

As at March 31, 2001, the register of substantial shareholders maintained under Section 16(1) of the SDI Ordinance showed that the following shareholders had an interest of 10% or more in the share capital of the Company:

Name of shareholder	Number of shares held			Notes
	Direct interest	Deemed interest	Percentage of issued share capital	
Man Sang International (B.V.I.) Limited	426,000,000	–	67.42%	
Man Sang Holdings, Inc.	–	426,000,000	67.42%	1
Cafoong Limited	–	426,000,000	67.42%	2

Notes:

1. This represented the deemed interest in 426,000,000 shares in the Company held by Man Sang International (B.V.I.) Limited which is a wholly-owned subsidiary of MSH.
2. This represented the deemed interest in 426,000,000 shares in the Company held by Man Sang International (B.V.I.) Limited whereby Cafoong Limited holds 62.42% of the common stock and all of the Series A preferred stock of MSH at March 31, 2001, which represents 74.94% of the voting rights.

Save as disclosed above, the Company has not been notified of any other interests representing 10% or more of the Company's issued share capital as at March 31, 2001.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-Laws, or the laws of Bermuda, which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

RETIREMENT BENEFITS SCHEME

The Group participates in a mandatory provident fund scheme ("MPF Scheme") for all employees in Hong Kong pursuant to the requirements set out in the Mandatory Provident Fund Scheme Ordinance, which became effective on December 1, 2000. The assets of the MPF Scheme are held separately from those of the Group in funds under the control of an independent trustee. Under the rule of the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at rates specified in the rules. The only obligation of the Group with respect to the MPF Scheme is to make the required contributions under the scheme. No forfeited contributions are available to reduce the contributions payable in the future years.

The retirement benefit cost charged to the income statement during the year amounted to HK\$248,000, which represents contributions payable to the MPF Scheme by the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption of the listed securities of the Company by the Company or any of its subsidiaries during the year.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$1,213,000.

CODE OF BEST PRACTICE

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 of Hong Kong Limited.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board

Cheng Chung Hing

CHAIRMAN

Hong Kong, June 28, 2001

AUDITORS' REPORT

德勤·關黃陳方會計師行

Certified Public Accountants
26/F, Wing On Centre
111 Connaught Road Central
Hong Kong

香港中環干諾道中111號
永安中心26樓

**Deloitte
Touche
Tohmatsu**

TO THE MEMBERS OF MAN SANG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

We have audited the financial statements on pages 28 to 79 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

BASIS OF OPINION

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Society of Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

AUDITORS' REPORT

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 2001 and of the loss and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu

Certified Public Accountants

Hong Kong, June 28, 2001

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Turnover	3	311,108	279,280
Cost of sales		(229,323)	(184,847)
Write-down of inventories to their net realisable values		(65,353)	(3,300)
Gross profit		16,432	91,133
Other revenue		9,980	8,567
Selling expenses		(6,827)	(5,101)
Administrative expenses		(66,400)	(57,218)
(Loss) profit from operations	4	(46,815)	37,381
Investment income	6	3,209	4,437
Finance costs	7	(6,990)	(5,429)
(Loss) profit before taxation		(50,596)	36,389
Taxation	8	(535)	(3,883)
(Loss) profit before minority interests		(51,131)	32,506
Minority interests		1,305	616
Net (loss) profit for the year	9	(49,826)	33,122
(Loss) earnings per share	10		
Basic		(7.89 cents)	5.42 cents
Diluted		N/A	5.33 cents

CONSOLIDATED BALANCE SHEET

At March 31, 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Non-current assets			
Investment properties	11	115,430	69,500
Property, plant and equipment	12	84,481	97,072
Investment securities	14	6,330	6,330
		206,241	172,902
Current assets			
Inventories	15	111,045	187,966
Trade and other receivables	16	77,655	72,581
Other investments	17	11,734	–
Tax recoverable		1,560	–
Pledged bank deposits	30	64,879	62,330
Bank balances and cash		49,135	72,152
		316,008	395,029
Current liabilities			
Trade and other payables	18	18,782	23,750
Amount due to an investee company		184	604
Taxation		–	3,025
Obligations under hire purchase			
contracts – due within one year	19	123	192
Bank borrowings – due within one year	20	92,022	78,264
		111,111	105,835
Net current assets		204,897	289,194
		411,138	462,096

CONSOLIDATED BALANCE SHEET

At March 31, 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Capital and reserves			
Share capital	21	63,187	52,451
Reserves	24	303,774	370,723
		366,961	423,174
Minority interests			
		2,426	2,476
Non-current liabilities			
Obligations under hire purchase contracts			
– due after one year	19	–	123
Bank borrowings – due after one year	20	29,306	20,767
Amount due to an intermediate holding company			
	25	–	15,556
Amount due to immediate holding company	25	12,445	–
		41,751	36,446
		411,138	462,096

The financial statements on pages 28 to 79 were approved by the Board of Directors on June 28, 2001 and are signed on its behalf by:

Cheng Chung Hing
Director

Cheng Tai Po
Director

BALANCE SHEET

At March 31, 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Non-current asset			
Interests in subsidiaries	13	315,067	360,106
Current assets			
Trade and other receivables		235	339
Other investments	17	11,734	–
Tax recoverable		64	–
Pledged bank deposits	30	3,702	3,519
Bank balances and cash		15,443	13,245
		31,178	17,103
Current liabilities			
Trade and other payables		395	260
Taxation		–	132
		395	392
Net current assets		30,783	16,711
		345,850	376,817

BALANCE SHEET

At March 31, 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
Capital and reserves			
Share capital	21	63,187	52,451
Reserves	24	282,663	296,410
		345,850	348,861
Non-current liability			
Amounts due to subsidiaries	25	–	27,956
		345,850	376,817

Cheng Chung Hing
Director

Cheng Tai Po
Director

CONSOLIDATED STATEMENT OF RECOGNISED GAINS AND LOSSES

For the year ended March 31, 2001

	2001	2000
	HK\$'000	HK\$'000
Revaluation decrease on investment properties	(6,455)	(2,770)
Exchange differences arising on translation of financial statements of overseas operations	723	(498)
Net loss not recognised in the income statement	(5,732)	(3,268)
Net (loss) profit for the year	(49,826)	33,122
Total recognised (losses) gains	(55,558)	29,854
Elimination against reserves of goodwill arising on acquisition of subsidiaries	(1,179)	–
	(56,737)	29,854

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CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	27	22,639	19,270
RETURNS ON INVESTMENTS AND SERVICING OF FINANCE			
Interest paid		(6,963)	(5,376)
Interest on obligations under hire purchase contracts		(27)	(53)
Dividend paid		–	(4,844)
Rental income received		5,526	4,620
Interest received		5,353	4,437
Dividend received		178	–
NET CASH INFLOW (OUTFLOW) FROM RETURNS ON INVESTMENTS AND SERVICING OF FINANCE		4,067	(1,216)
TAXATION			
Hong Kong Profits Tax paid		(2,196)	(2,320)
Overseas tax paid		(2,944)	(315)
		(5,140)	(2,635)

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2001

	<i>Notes</i>	2001 HK\$'000	2000 HK\$'000
INVESTING ACTIVITIES			
Purchase of an investment property		(37,439)	–
Purchase of other investments		(23,487)	–
Purchase of property, plant and equipment		(10,844)	(6,550)
Increase in pledged bank deposits		(2,422)	(43,499)
Proceeds from disposal of other investments		9,431	–
Purchase of subsidiaries	28	89	–
Proceeds from disposal of property, plant and equipment		67	170
Expenditure on intangible assets		–	(979)
Purchase of investment securities		–	(900)
NET CASH OUTFLOW FROM INVESTING ACTIVITIES		(64,605)	(51,758)
NET CASH OUTFLOW BEFORE FINANCING		(43,039)	(36,339)
FINANCING			
New bank loans raised	29	67,305	64,160
Contribution from minority shareholders		–	3,092
Net proceeds from issue of shares		524	12,770
Repayment of bank loans		(44,608)	(20,276)
Repayment of amount due to an intermediate holding company		(3,111)	(6,343)
Repayment of obligations under hire purchase contracts		(192)	(235)
NET CASH INFLOW FROM FINANCING		19,918	53,168

CONSOLIDATED CASH FLOW STATEMENT

For the year ended March 31, 2001

	2001 HK\$'000	2000 HK\$'000
(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(23,121)	16,829
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR	71,752	55,698
EFFECT OF FOREIGN EXCHANGE RATE CHANGES	504	(775)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR	49,135	71,752
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS		
Bank balances and cash	49,135	72,152
Bank import loans with less than three months maturity when raised	–	(400)
	49,135	71,752

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s ultimate holding company is Cafoong Limited, a company which is incorporated in the British Virgin Islands.

The Company acts as an investment holding company. The Group is principally engaged in the purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and pearl jewelry products.

2. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties and investment in securities, and in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate.

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value ascribed to the Group's share of the net assets at the date of acquisition of a subsidiary and is eliminated against reserves immediately on acquisition. Negative goodwill, which represents the excess over the purchase consideration of the fair value ascribed to the Group's share of the net assets at the date of acquisition over the purchase consideration, is credited to reserves.

On disposal of an investment in a subsidiary, the attributable amount of goodwill previously eliminated against or credited to reserves is included in the determination of the profit or loss on disposal of the subsidiary.

Turnover

Turnover represents the net amounts received and receivable in respect of goods sold, less returns and allowances, by the Group to outside customers during the year.

Revenue recognition

Sales of goods are recognised when goods are delivered and title has passed.

Service income is recognised when services are provided.

Interest income from bank deposits is accrued on a time basis, by reference to the principal outstanding and at the interest rate applicable.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognised when the shareholders' right to receive payments has been established.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Subsidiaries

A subsidiary is an enterprise in which the Company, directly or indirectly, holds more than half of the issued share capital, or controls more than half of the voting power, or where the Company controls the composition of its board of directors or equivalent governing body.

Investments in subsidiaries are included in the Company's balance sheet at cost, as reduced by any decline in the value of the subsidiary that is other than temporary.

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any surplus or deficit arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a deficit, in which case the excess of the deficit over the balance on the investment property revaluation reserve is charged to the income statement. Where a deficit has previously been charged to the income statement and a revaluation surplus subsequently arises, this surplus is credited to the income statement to the extent of the deficit previously charged.

On disposal of an investment property, the balance on the investment property revaluation reserve attributable to that property is credited in the income statement.

No depreciation is provided on investment properties except where the unexpired term of the relevant lease is 20 years or less.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Property, plant and equipment

Property, plant and equipment, other than construction in progress, is stated at cost less depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the asset has been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the asset, the expenditure is capitalised as an additional cost of the asset.

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the income statement.

Where the recoverable amount of an asset has declined below its carrying amount, the carrying amount is reduced to reflect the decline in value. In determining the recoverable amount of assets, expected future cash flows are not discounted to their present values.

Depreciation is provided to write off the cost of property, plant and equipment, other than construction in progress, over the estimated useful lives and after taking into account the estimated residual value, using the straight-line method, at the following rates per annum:

Leasehold properties	Over the shorter of the term of lease or 50 years
Leasehold improvements	25%
Plant and machinery	25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Property, plant and equipment *(Continued)*

The cost of land use rights is amortised over the terms of the rights using the straight-line method.

Assets held under hire purchase contracts are depreciated over their expected useful lives on the same basis as owned assets.

Construction in progress is stated at cost which includes all development expenditure and other direct costs, including borrowing cost capitalised, attributable to such projects. Construction in progress is not depreciated or amortised until the completion of construction. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

Leases and hire purchase contracts

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership of the assets concerned to the Group. Assets held under finance leases and hire purchase contracts are capitalised at their fair value at the date of acquisition. The principal portion of the corresponding leasing commitments is shown as obligations of the Group. Finance costs, which represent the difference between the total leasing commitments and the fair value of the assets acquired, are charged to the income statement over the period of the relevant lease or contract so as to produce a constant periodic rate of charge on the remaining balances of the obligations for each accounting period.

All other leases are classified as operating leases and the annual rentals are charged to the income statement on a straight-line basis over the lease terms.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Investments in securities

Investments in securities are recognised on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealised gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost, which comprises direct materials and, where applicable, costs of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales.

Foreign currencies

Transactions in foreign currencies are translated at the rates ruling on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in foreign currencies are re-translated at the rates ruling on the balance sheet date. Gains and losses on translation are dealt with in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

2. *SIGNIFICANT ACCOUNTING POLICIES (Continued)*

Foreign currencies *(Continued)*

On consolidation, the financial statements of overseas subsidiaries which are denominated in currencies other than Hong Kong dollar are translated at the rates ruling on the balance sheet date. All exchange differences arising on consolidation are dealt with in reserves.

Taxation

The charge for taxation is based on the results for the year as adjusted for items which are non-assessable or disallowed. Timing differences arise from the recognition for tax purposes of certain items of income and expense in a different accounting period from that in which they are recognised in the financial statements. The tax effect of timing differences, computed using the liability method, is recognised as deferred taxation in the financial statements to the extent that it is probable that a liability or an asset will crystallise in the foreseeable future.

Cash equivalents

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired, less advances from banks repayable within three months from the date of the advances.

Retirement benefit scheme

The retirement benefit costs charged in the income statement represent the contributions payable to the Group's mandatory provident fund scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

3. *TURNOVER*

The Group's turnover and (loss) profit from operations, analysed by geographical market, are as follows:

	2001		2000	
	Turnover HK\$'000	Loss from operations HK\$'000	Turnover HK\$'000	Profit from operations HK\$'000
By geographical market				
Hong Kong	68,752	(4,909)	53,269	6,966
Asian countries excluding Hong Kong	89,948	(14,403)	59,862	8,037
North America	78,300	(15,569)	72,089	9,710
Europe	63,080	(10,232)	82,818	11,152
Others	11,028	(1,702)	11,242	1,516
	311,108		279,280	
(Loss) profit from operations		(46,815)		37,381

The Group is principally engaged in the purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and pearl jewelry products.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

4. (LOSS) PROFIT FROM OPERATIONS

	2001 HK\$'000	2000 HK\$'000
(Loss) profit from operations has been arrived at after charging:		
Auditors' remuneration:		
Current year	667	813
Overprovision in previous years	(65)	(26)
Depreciation and amortisation:		
Assets owned by the Group	7,518	5,732
Assets held under and hire purchase contracts	218	218
Licences	–	1,394
Loss on disposal of property, plant and equipment	733	–
Pre-operating expenses written off	–	1,116
Rentals in respect of land and buildings under operating leases	4,916	2,315
Staff costs	36,953	32,082
and after crediting:		
Gain on disposal of property, plant and equipment	–	145
Rental income from investment properties under operating leases (net of outgoings of HK\$113,000 (2000: HK\$28,000))	5,413	4,592

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

Particulars of the emoluments of the directors and the five highest paid individuals are as follows:

(a) Directors' emoluments

	2001 HK\$'000	2000 HK\$'000
Fees:		
Executive	–	–
Non-executive	92	8
Independent non-executive	331	300
	423	308
Other emoluments:		
Executive		
Salaries and other benefits	9,795	9,836
Performance related incentive payments	–	2,700
Retirement benefits contribution	15	–
Non-executive	–	–
Independent non-executive	–	–
	9,810	12,536
	10,233	12,844

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(a) Directors' emoluments (Continued)

The directors' emoluments were within the following bands:

	No. of directors	
	2001	2000
Nil – HK\$1,000,000	4	5
HK\$1,000,001 to HK\$1,500,000	1	–
HK\$2,500,001 to HK\$3,000,000	2	–
HK\$4,500,001 – HK\$5,000,000	–	2

Included in the directors' emoluments disclosed above is rent free accommodation provided by the Group to directors during the year with an aggregate rateable value as follows:

	2001	2000
	HK\$'000	HK\$'000
Approximate rateable value of property for directors' accommodation	1,705	1,805

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

5. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Employees' emoluments

Of the five individuals with the highest emolument in the Group, four (2000: four) were directors of the Company whose emoluments are included in the disclosure in note 5(a) above. The emoluments of the remaining one (2000: one) individual were as follows:

	2001 HK\$'000	2000 HK\$'000
Salaries and other benefits	690	883
Retirement benefits contribution	4	–
	694	883

6. INVESTMENT INCOME

	2001 HK\$'000	2000 HK\$'000
Interest income	5,353	4,437
Dividends received from listed other investments	158	–
Dividends received from unlisted investment securities	20	–
Net realised gain on disposal of other investments	2,027	–
Net unrealised loss on other investments	(4,349)	–
	3,209	4,437

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

7. FINANCE COSTS

	2001	2000
	HK\$'000	HK\$'000
Interest on:		
Bank borrowings wholly repayable within five years	5,605	2,844
Bank borrowings not wholly repayable within five years	1,358	2,532
Obligations under hire purchase contracts	27	53
	6,990	5,429

8. TAXATION

	2001	2000
	HK\$'000	HK\$'000
The charge comprises:		
Hong Kong Profits Tax:		
Current year	1	1,943
Overprovision in prior year	(199)	(747)
Income tax in the People's Republic of China (the "PRC") attributable to the PRC subsidiaries	733	2,687
	535	3,883

Hong Kong Profits Tax is calculated at a rate of 16% of the estimated assessable profit for the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

8. TAXATION (Continued)

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 a range of rates of 7.5% to 15% of the income of the PRC subsidiaries.

Details of the unprovided deferred taxation are set out in note 26.

9. NET (LOSS) PROFIT FOR THE YEAR

Of the Group's net loss for the year of HK\$49,826,000 (2000: net profit of HK\$33,122,000), a loss of HK\$3,535,000 (2000: a profit of HK\$976,000) has been dealt with in the financial statements of the Company.

10. (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share ("EPS") is based on the following data:

	2001 HK\$'000	2000 HK\$'000
(Loss) earnings for the purpose of calculating basic and diluted EPS	(49,826)	33,122

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

10. (LOSS) EARNINGS PER SHARE (Continued)

	2001	2000
	Number	Number
	of shares	of shares
Weighted average number of ordinary shares for the purpose of calculating basic EPS	631,310,929	611,131,351
Effect of dilutive potential ordinary shares:		
Options		2,114,242
Warrants		8,573,350
Weighted average number of ordinary shares for the purpose of calculating diluted EPS		621,818,943

Diluted loss per share is not presented for the year ended March 31, 2001 as the effect of exercising the Company's shares options and warrants would be anti-dilutive.

The denominators for both years for the purposes of calculating both basic and diluted EPS have been adjusted to reflect the bonus issue of shares in the Company in August 2000.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

11. INVESTMENT PROPERTIES

	<u>HK\$'000</u>
THE GROUP	
At April 1, 2000	69,500
Additions	37,439
Transferred from property, plant and equipment	14,946
Deficit on revaluation	<u>(6,455)</u>
At March 31, 2001	<u>115,430</u>

The Group's investment properties at March 31, 2001 were revalued by Insignia Brooke, an independent professional firm of valuers, on an open market value basis, at HK\$115,430,000. The deficit arising on revaluation of the investment properties amounting to HK\$6,455,000 has been charged to the investment property revaluation reserve.

All the Group's investment properties are rented out under operating leases.

The carrying value of investment properties shown above comprises:

	2001 HK\$'000	2000 HK\$'000
Land and buildings situated in Hong Kong and held under:		
Long leases	12,210	2,100
Medium-term leases	40,220	4,400
Land and buildings situated in the PRC and held under medium-term leases	<u>63,000</u>	63,000
	<u>115,430</u>	69,500

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

12. PROPERTY, PLANT AND EQUIPMENT

	Leasehold properties	Leasehold improve- ments	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE GROUP							
COST							
At April 1, 2000	87,441	12,474	6,056	6,007	4,483	697	117,158
Currency realignment	22	13	13	4	4	1	57
Purchase of subsidiaries	-	-	-	9	-	-	9
Additions	3,467	3,382	388	3,520	-	87	10,844
Disposals	-	(732)	(403)	(855)	-	-	(1,990)
Transferred to investment properties	(15,774)	-	-	-	-	-	(15,774)
Reclassification	-	-	785	-	-	(785)	-
At March 31, 2001	75,156	15,137	6,839	8,685	4,487	-	110,304
DEPRECIATION AND AMORTISATION							
At April 1, 2000	4,327	6,192	3,105	3,760	2,702	-	20,086
Currency realignment	2	5	6	2	4	-	19
Provided for the year	1,758	2,954	977	1,389	658	-	7,736
Eliminated on disposals	-	(195)	(396)	(599)	-	-	(1,190)
Transferred to investment properties	(828)	-	-	-	-	-	(828)
At March 31, 2001	5,259	8,956	3,692	4,552	3,364	-	25,823
NET BOOK VALUES							
At March 31, 2001	69,897	6,181	3,147	4,133	1,123	-	84,481
At March 31, 2000	83,114	6,282	2,951	2,247	1,781	697	97,072

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

12. PROPERTY, PLANT AND EQUIPMENT (Continued)

The net book value of leasehold properties shown above comprises:

	2001 HK\$'000	2000 HK\$'000
Land and buildings situated in Hong Kong and held under:		
Long leases	17,034	32,538
Medium-term leases	43,817	41,275
Land and buildings situated in the PRC and held under medium-term leases	9,046	9,301
	69,897	83,114

The net book value of property, plant and equipment at March 31, 2001 includes an amount of HK\$117,000 (2000: HK\$335,000) in respect of assets held under hire purchase contracts.

The Company had no property, plant and equipment at March 31, 2001.

13. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2001 HK\$'000	2000 HK\$'000
Unlisted shares, at cost or carrying value	206,664	206,668
Amounts due from subsidiaries	108,403	153,438
	315,067	360,106

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

13. INTERESTS IN SUBSIDIARIES (Continued)

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group pursuant to the corporate reorganisation in 1997.

None of the subsidiaries had any loan capital outstanding at the end of the year or at any time during the year.

Details of the Company's subsidiaries at March 31, 2001 are set out in note 34.

14. INVESTMENT SECURITIES

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Unlisted investments, at cost:		
Hong Kong	900	900
The PRC	5,430	5,430
	6,330	6,330

The directors of the Company are of the opinion that the investments are worth at least their cost and no impairment loss needs to be recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

15. INVENTORIES

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Raw materials	1,618	1,781
Work in progress	31,611	33,987
Finished goods	77,816	152,198
	111,045	187,966

Included above are raw materials of HK\$1,462,000 (2000: HK\$1,686,000), work in progress of HK\$30,015,000 (2000: HK\$27,800,000) and finished goods of HK\$60,148,000 (2000: HK\$138,753,000) which are carried at net realisable value.

16. TRADE AND OTHER RECEIVABLES

The Group allows an average credit period of 60 days to its trade customers.

The following is an aged analysis of trade receivables of the Group at the reporting date:

	2001	2000
	HK\$'000	HK\$'000
0–60 days	34,283	51,924
61–120 days	11,979	3,260
> 120 days	16,358	340
	62,620	55,524

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

17. OTHER INVESTMENTS

	THE GROUP AND THE COMPANY	
	2001	2000
	HK\$'000	HK\$'000
Listed equity investments in Hong Kong, at market value	11,734	–

18. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables of the Group at the reporting date:

	2001	2000
	HK\$'000	HK\$'000
0–60 days	2,919	8,528
61–120 days	712	347
> 120 days	18	125
	3,649	9,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

19. OBLIGATIONS UNDER HIRE PURCHASE CONTRACTS

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
The maturity of obligations under hire purchase contracts is as follows:		
Within one year	123	192
More than one year, but not exceeding two years	–	123
	123	315
<i>Less:</i> Amount due within one year and shown under current liabilities	(123)	(192)
Amount due after one year	–	123

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

20. BANK BORROWINGS

THE GROUP

	2001 HK\$'000	2000 HK\$'000
The bank borrowings comprise:		
Bank loans	121,328	98,631
Bank import loans	–	400
	121,328	99,031
All of the bank borrowings are secured.		
The bank borrowings are repayable as follows:		
Within one year or on demand	92,022	78,264
More than one year, but not exceeding two years	6,304	4,429
More than two years, but not exceeding five years	17,117	12,821
More than five years	5,885	3,517
	121,328	99,031
<i>Less:</i> Amount due within one year and shown under current liabilities	(92,022)	(78,264)
Amount due after one year	29,306	20,767

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

21. SHARE CAPITAL

	Number of shares		Share capital	
	2001 '000	2000 '000	2001 HK\$'000	2000 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorised:				
At beginning of the year	900,000	900,000	90,000	90,000
Increase during the year (<i>note i</i>)	600,000	–	60,000	–
At end of the year	1,500,000	900,000	150,000	90,000
Issued and fully paid:				
At beginning of the year	524,510	484,464	52,451	48,446
Issue of shares on exercise of share options (<i>note ii</i>)	2,050	–	205	–
Bonus issue of shares (<i>note iii</i>)	105,311	–	10,531	–
Issue of shares on placement (<i>note iv</i>)	–	40,000	–	4,000
Issue of shares on exercise of warrants	–	46	–	5
At end of the year	631,871	524,510	63,187	52,451

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

21. SHARE CAPITAL (Continued)

Notes:

- (i) Pursuant to a resolution passed at the annual general meeting of the Company held on August 2, 2000, the authorised share capital of the Company was increased from HK\$90,000,000 divided into 900,000,000 shares of HK\$0.10 each to HK\$150,000,000 divided into 1,500,000,000 shares of HK\$0.10 each by the creation of 600,000,000 new shares of HK\$0.10 each.
- (ii) During the year ended March 31, 2001, the Company issued 2,050,000 shares of HK\$0.10 each in the Company for cash, as a result of the exercise of share options.
- (iii) Pursuant to a resolution passed on August 3, 2000, a total of 105,311,821 bonus shares of HK\$0.10 each of the Company, credited as fully paid by way of capitalisation from the share premium account of the Company, were allotted to shareholders on the basis of one bonus share for every five shares.
- (iv) On August 6, 1999, arrangements were made for a placement to independent investors of 40,000,000 new ordinary shares of HK\$0.10 each in the Company at a price of HK\$0.33 per share representing a discount of approximately 10.81% to the closing market price of the Company's shares on August 6, 1999. The proceeds were used to develop the retail market of pearl and pearl products in the PRC and to provide additional working capital for the Company. These new shares were issued under the general mandate granted to the directors at the annual general meeting of the Company held on August 2, 1999.

All the shares issued during both years rank *pari passu* with the then existing shares in all respects.

22. WARRANTS

By a special resolution passed on August 2, 1999, the Company made a bonus issue of warrants on the basis of one warrant for every five shares held on August 2, 1999, exercisable from September 14, 1999 to September 13, 2001, both dates inclusive. Such warrants will entitle the registered holder to subscribe for 117,390,422 new shares of the Company at a subscription price of HK\$0.33 per share, subject to adjustment.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

22. *WARRANTS (Continued)*

During the year ended March 31, 2000, the registered holders of 45,603 of warrants exercised their rights to subscribe for ordinary shares.

No warrants were exercised during the year ended March 31, 2001.

At March 31, 2001, the Company had outstanding 117,390,422 warrants. Exercise in full of such warrants would result in the issue of 117,390,422 additional shares of HK\$0.10 each.

23. *SHARE OPTION SCHEME*

Pursuant to the share option scheme of the Company adopted on September 8, 1997 (the “Scheme”), the directors of the Company may grant options to any executive director or full time employee of the Company or any of its subsidiaries to subscribe for shares in the Company at a price not less than the higher of the nominal value of the Company’s shares and 80% of the average of the closing prices of the Company’s shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options, subject to a maximum of 10% of the issued share capital of the Company from time to time.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

23. SHARE OPTION SCHEME (Continued)

Details of movements of the share options granted by the Company pursuant to the Scheme are as follows:

Date of grant	Exercise price	At 4.1.2000	Number of share options					At 3.31.2001
			Granted during the year	Exercised during the year	Expired during the year	Adjusted on 8.3.2000	Cancelled during the year	
October 16, 1997	0.6208	27,800,000	-	-	(27,800,000)	-	-	-
December 3, 1997	0.4460	8,650,000	-	-	(8,650,000)	-	-	-
November 16, 1999	0.2133	9,800,000	-	(2,050,000)	-	1,551,450	-	9,301,450
April 28, 2000	0.2475	-	33,000,000	-	-	6,600,000	(1,200,000)	38,400,000
		46,250,000	33,000,000	(2,050,000)	(36,450,000)	8,151,450	(1,200,000)	47,701,450

The Company received nominal consideration for options granted during the year.

The options are exercisable within a period of two years commencing from six months after the respective dates of acceptance.

The share options granted on October 16, 1997 and December 3, 1997 expired during the year.

The number of share options were adjusted on August 3, 2000 pursuant to the 1 to 5 bonus issue of shares of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

24. RESERVES

	Share premium account HK\$'000	Other non- distributable reserve HK\$'000	Merger reserve HK\$'000	Investment property revaluation reserve HK\$'000	Goodwill reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP								
Balance at April 1, 1999	75,145	2,001	(200)	35,204	(174)	2,078	218,050	332,104
Issue of shares at premium	9,214	-	-	-	-	-	-	9,214
Share issue expenses	(449)	-	-	-	-	-	-	(449)
Deficit on revaluation of investment properties	-	-	-	(2,770)	-	-	-	(2,770)
Net profit for the year	-	-	-	-	-	-	33,122	33,122
Exchange adjustment arising from translation of financial statements of overseas operations	-	-	-	-	-	(498)	-	(498)
Balance at April 1, 2000	83,910	2,001	(200)	32,434	(174)	1,580	251,172	370,723
Issue of shares at premium	319	-	-	-	-	-	-	319
Transferred to share capital on bonus issue	(10,531)	-	-	-	-	-	-	(10,531)
Deficit on revaluation of investment properties	-	-	-	(6,455)	-	-	-	(6,455)
Net loss for the year	-	-	-	-	-	-	(49,826)	(49,826)
Goodwill arising on acquisition of subsidiaries	-	-	-	-	(1,179)	-	-	(1,179)
Exchange adjustment arising from translation of financial statements of overseas operations	-	-	-	-	-	723	-	723
Balance at March 31, 2001	73,698	2,001	(200)	25,979	(1,353)	2,303	201,346	303,774

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

24. RESERVES (Continued)

The merger reserve represents the difference between the nominal value of shares of subsidiaries acquired, and the nominal value of the Company's shares issued for the acquisition under the corporate reorganisation in 1997.

	Share premium account	Contributed surplus	Accumulated profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
THE COMPANY				
Balance at April 1, 1999	75,145	206,459	5,065	286,669
Issue of shares at premium	9,214	–	–	9,214
Share issue expenses	(449)	–	–	(449)
Net profit for the year (note 9)	–	–	976	976
Balance at April 1, 2000	83,910	206,459	6,041	296,410
Issue of shares at premium	319	–	–	319
Transferred to share capital on bonus issue	(10,531)	–	–	(10,531)
Net loss for the year (note 9)	–	–	(3,535)	(3,535)
Balance at March 31, 2001	73,698	206,459	2,506	282,663

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the corporate reorganisation in 1997.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

24. RESERVES (Continued)

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- (a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

In the opinion of the Company's directors, the Company's reserves available for distribution to shareholders at March 31, 2001 consisted of contributed surplus of HK\$206,459,000 (2000: HK\$206,459,000) and accumulated profits of HK\$2,506,000 (2000: HK\$6,041,000).

25. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/AMOUNT DUE TO IMMEDIATE HOLDING COMPANY/AMOUNTS DUE TO SUBSIDIARIES

Intermediate holding company

The amount was due to Man Sang Holdings, Inc., a company which is incorporated in the State of Nevada, the United States of America, and quoted on the National Association of Securities Dealers, Inc. Electronic Bulletin Board. The amount was unsecured, non-interest bearing and was fully settled during the year.

Immediate holding company

The amount due to the immediate holding company is unsecured and non-interest bearing. In the opinion of the directors of the Company, the amount will not be repayable within twelve months of the balance sheet date and accordingly, the amount is classified as non-current.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

25. AMOUNT DUE TO AN INTERMEDIATE HOLDING COMPANY/AMOUNT DUE TO IMMEDIATE HOLDING COMPANY/AMOUNTS DUE TO SUBSIDIARIES (Continued)

Subsidiaries

The amounts due to subsidiaries are unsecured and non-interest bearing. In the opinion of the directors of the Company, the amounts will not be repayable within twelve months of the balance sheet date and accordingly, the amounts are classified as non-current.

26. DEFERRED TAXATION

At March 31, 2001, the major components of potential deferred tax (asset) liability are as follows:

	THE GROUP	
	2001	2001
	HK\$'000	HK\$'000
Tax effect of timing difference attributable to:		
Taxation losses available to set off future profits	(7,946)	(1,557)
Excess of tax allowances over depreciation	232	135
	(7,714)	(1,422)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

26. DEFERRED TAXATION (Continued)

The amounts of potential deferred tax (credit) charge for the year are as follows:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Tax effect of timing difference attributable to:		
Taxation losses	(6,389)	(906)
Excess of tax allowances over depreciation	97	198
	(6,292)	(708)

A deferred tax asset has not been recognised in the financial statements in respect of tax losses available to offset future profits as it is not certain that the tax losses will be utilised in the foreseeable future.

At March 31, 2001, the Group had an unprovided deferred taxation liability of HK\$17,686,000 (2000: HK\$18,137,000) representing the potential taxation effect of timing differences relating to the surplus arising on the valuation of the Group's investment properties in the PRC. The deferred taxation liability has not been provided as, in the opinion of the directors, the Group will not dispose of its interest in the investment properties in the PRC in the foreseeable future.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

27. RECONCILIATION OF (LOSS) PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	2001 HK\$'000	2000 HK\$'000
(Loss) profit before taxation	(50,596)	36,389
Depreciation and amortisation	7,736	7,344
Dividend received	(178)	–
Rental income	(5,526)	(4,620)
Interest expense	6,963	5,376
Interest income	(5,353)	(4,437)
Interest on obligations under hire purchase contracts	27	53
Loss (gain) on disposal of property, plant and equipment	733	(145)
Net realised gain on disposal of other investments	(2,027)	–
Net unrealised loss on other investments	4,349	–
Pre-operating expenses written off	–	1,116
Decrease (increase) in inventories	77,021	(16,421)
Increase in trade and other receivables	(4,783)	(7,390)
(Decrease) increase in trade and other payables	(5,307)	1,401
(Decrease) increase in amount due to an investee company	(420)	604
Net cash inflow from operating activities	22,639	19,270

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

28. PURCHASE OF SUBSIDIARIES

During the year, the Group acquired 79% of the issued share capital of Intimex Business Solutions Company Limited and WiserU.com Limited by an issue of 42,000,000 shares of HK\$0.05 each in the share capital of Cyber Bizport Limited. This acquisition has been accounted for by the acquisition method of accounting. The amount of goodwill arising as a result of the acquisition was HK\$1,179,000. The aggregate net loss of Intimex Business Solutions Company Limited and WiserU.com Limited included in the consolidated income statement for the year ended March 31, 2001 amounted to HK\$775,000.

	2001 HK\$'000	2000 HK\$'000
NET ASSETS ACQUIRED		
Property, plant and equipment	9	–
Inventories	18	–
Trade and other receivables	269	–
Bank balances and cash	89	–
Trade and other payables	(319)	–
Taxation	(16)	–
Minority interest	(11)	–
	39	–
Goodwill	1,179	–
	1,218	–
SATISFIED BY		
Minority interest	1,218	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

28. PURCHASE OF SUBSIDIARIES (Continued)

Net cash inflow of cash and cash equivalents arising on acquisition:

	2001	2000
	HK\$'000	HK\$'000
Bank balances and cash acquired	89	–

The subsidiaries acquired during the year contributed HK\$446,000 outflow to the Group's net operating cash flows, received HK\$4,000 in respect of the net returns on investments and servicing of finance, paid HK\$21,000 in respect of taxation and utilised HK\$341,000 for investing activities.

The subsidiaries acquired made no contribution to the Group's turnover during the year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

29. ANALYSIS OF CHANGES IN FINANCING DURING THE YEAR

	Share capital and share premium HK\$'000	Bank loans HK\$'000	Obligations under hire purchase contracts HK\$'000	Amount due to an intermediate holding company HK\$'000	Amount due to immediate holding company HK\$'000	Minority interests HK\$'000
At April 1, 1999	123,591	54,747	550	21,899	–	–
Shares issued during the year	13,219	–	–	–	–	–
Share issue expenses	(449)	–	–	–	–	–
New bank loans raised	–	64,160	–	–	–	–
Repayment during the year	–	(20,276)	(235)	(6,343)	–	–
Funds contributed from minority interests	–	–	–	–	–	3,092
Minority share of results for the year	–	–	–	–	–	(616)
At April 1, 2000	136,361	98,631	315	15,556	–	2,476
New bank loans raised	–	67,305	–	–	–	–
Transfer during the year	–	–	–	(12,445)	12,445	–
Repayment during the year	–	(44,608)	(192)	(3,111)	–	–
Shares issued during the year	524	–	–	–	–	–
Exchange adjustment	–	–	–	–	–	26
Purchase of subsidiaries	–	–	–	–	–	1,229
Minority share of results for the year	–	–	–	–	–	(1,305)
At March 31, 2001	136,885	121,328	123	–	12,445	2,426

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

30. PLEDGE OF ASSETS

At the balance sheet date, the Group had pledged the following assets to banks to secure bank borrowings and general banking facilities granted to the Group:

	THE GROUP	
	2001	2000
	HK\$'000	HK\$'000
Net book values of leasehold properties	57,432	73,812
Net book values of investments properties	72,625	26,596
Bank deposits	64,879	62,330
	194,936	162,738

At March 31, 2001, the Company pledged its bank deposits, amounting to HK\$3,702,000 (2000: HK\$3,519,000), to secure short-term bank borrowings and short-term bank facilities granted to the Group.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

31. OPERATING LEASE COMMITMENTS

At the balance sheet date, the Group had outstanding commitments under non-cancellable operating leases in respect of land and buildings payable in the following year as follows:

	THE GROUP	
	2001 HK\$'000	2000 HK\$'000
Operating leases which expire:		
Within one year	258	–
In the second to fifth year inclusive	4,333	2,818
	4,591	2,818

The Company had no significant operating lease commitment at the balance sheet date.

32. CONTINGENT LIABILITIES

At March 31, 2001, the Company had issued corporate guarantees to banks in respect of general banking facilities granted to its subsidiaries. The extent of facilities utilised by the subsidiaries at March 31, 2001 amounted to HK\$40,636,000 (2000: HK\$25,595,000).

At the balance sheet date, the Group had no significant contingent liabilities.

33. RELATED PARTY TRANSACTIONS

During the year, the Group repaid amounts totalling HK\$3,111,000 (2000: HK\$6,343,000) to Man Sang Holdings, Inc., the intermediate holding company of the Company. Details of the amount due to Man Sang Holdings, Inc. and the related terms are set out in note 25.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

33. RELATED PARTY TRANSACTIONS (Continued)

In addition, the Group purchased goods from an investee company amounting to HK\$5,415,000 (2000: HK\$3,512,000). The transactions were carried out on terms similar to those applicable to transactions with unrelated parties. The balance with this investee company is set out in the consolidated balance sheet on page 29 to 30.

During the year, Yuen & Partners received professional fees of HK\$135,000 (2000: HK\$34,000) for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, an independent non-executive director of the Company, is a partner of Yuen & Partners.

34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at March 31, 2001 are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal	Principal activities
			value of issued capital/registered capital held by the Company	
Arcadia Jewellery Limited	Hong Kong	Ordinary shares HK\$500,000	100%	Trading of pearl products
Asean Gold Limited	British Virgin Islands	Ordinary shares US\$10,000	100%	Investment holding
Beijing Sai Long Jewellery Co., Limited	PRC	Registered capital US\$1,000,000	60%	Trading of jewelry

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
Cyber Bizport Limited	Hong Kong	Ordinary shares HK\$10,000,000	79%		Investment holding
Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$6,000,000	100%		Purchasing and processing of pearls
Excel Access Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Property investment
Hong Kong Man Sang Investments Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%		Investment holding
Intimex Business Solutions Company Limited	Hong Kong	Ordinary shares HK\$99,999	79%		Provision of system integration consultancy services
Man Hing Industry Development (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$16,800,000	100%		Assembling of pearl jewelry and property investments

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
Man Sang Development Company Limited (formerly known as Golden Concord (Asia) Limited)	Hong Kong	Ordinary shares HK\$5,000	100%		Investment and property holding
Man Sang Enterprise Ltd.	British Virgin Islands	Ordinary shares US\$100	100%		Investment holding
Man Sang Innovations Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Investment holding
Man Sang Jewellery Company Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%		Trading of pearl products and investment holding
Market Leader Technology Limited	British Virgin Islands	Ordinary shares US\$100	100%		Investment holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
Million Chance Limited (formerly known as 4376zone.com Limited)	Hong Kong	Ordinary shares HK\$5,000	79%		Inactive
Multi-Talent Limited	Hong Kong	Ordinary shares HK\$5,000	79%		Inactive
Peking Pearls Company Limited	Hong Kong	Ordinary shares HK\$2	100%		Inactive
Sokeen Limited	Hong Kong	Ordinary shares HK\$350,000	100%		Inactive
Swift Millions Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Property investment
Tangzhu Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$6,800,000	100%		Purchasing and processing of pearls
Wealth-In Investment Limited	Hong Kong	Ordinary shares HK\$5,000	100%		Property holding

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2001

34. PARTICULARS OF SUBSIDIARIES (Continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid share capital/ registered capital	Proportion of nominal value of issued capital/registered capital held		Principal activities
			by the Company		
WiserU.com Limited	Hong Kong	Ordinary shares HK\$2	79%		Inactive
4376zone.com Limited (formerly known as Wet Wet Cyber Company Limited)	Hong Kong	Ordinary shares HK\$5,000	79%		Retail of jewelry, e-commerce trading and investment holding

Note 1: The Company directly holds the interests in Man Sang Enterprise Ltd., Man Sang Innovations Limited and Market Leader Technology Limited. All other interests shown above are indirectly held by the Company.

Note 2: The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the Company or to participate in any distribution on winding up.

FINANCIAL SUMMARY

RESULTS

	For the year ended March 31,				
	1997	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	248,240	262,158	230,915	279,280	311,108
Profit (loss) before taxation	47,597	82,439	25,024	36,389	(50,596)
Taxation	(688)	(1,774)	(2,047)	(3,883)	(535)
Profit (loss) before minority interests	46,909	80,665	22,977	32,506	(51,131)
Minority interests	–	–	–	616	1,305
Net profit (loss) for the year	46,909	80,665	22,977	33,122	(49,826)

FINANCIAL SUMMARY

ASSETS AND LIABILITIES

	At March 31,			
	1998	1999	2000	2001
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	440,840	488,100	567,931	522,249
Total liabilities	(82,461)	(107,550)	(142,281)	(152,862)
Minority interests	–	–	(2,476)	(2,426)
Shareholders' funds	358,379	380,550	423,174	366,961

Notes:

1. The Company was incorporated in Bermuda on July 30, 1997 and became the holding company of the Group with effect from September 8, 1997 as a result of a corporate reorganisation.
2. The results of the Group for the year ended March 31, 1997 have been prepared on a combined basis to indicate the results as if the group structure after the above-mentioned corporate reorganisation had been in existence throughout the year ended March 31, 1997 and have been extracted from the Company's prospectus dated September 15, 1997.

MAJOR PROPERTIES

Below is a schedule of investment properties held by the Group in Hong Kong and the PRC as at March 31, 2001

Location	Description and Tenure	Use	Group's Interest
Group I			
Office Unit 7 on 4th Floor Wing Tuck Commercial Centre 13-17 Bonham Strand West 177-183 Wing Lok Street Sheung Wan Hong Kong (17/2,422 shares of and in the 1073 R.P., 1728 R.P., 1760 R.P. 1761 R.P. and 1760 S.A.R.P.)	Gross Floor Area: 957 sq.ft. (88.91 sq.m.) Saleable Area: 762 sq.ft. (70.79 sq.m.) The property is held from the Government for a term of 999 years from September 27, 1854	Office The property is let for a term of 1 year commencing from January 18, 2001	100%
Workshop Unit 14 and Portion of Workshop Unit 15 on 6th Floor of Block A Focal Industrial Centre 21 Man Lok Street Hungghom Kowloon Hong Kong (12/3,371 shares of and in the Section C of Kowloon Marine Lot No. 113)	Gross Floor Area: 3,586.5 sq.ft. (333.2 sq.m.) Saleable Area: 2,859.5 sq.ft. (265.7 sq.m.) The property is held from the Government under Conditions of Exchange No. 11128 for a term of 75 years from September 15, 1972	Office The property is let for a term of 3 years commencing from February 1, 2001	100%
Workshop Unit 16 on 6th Floor of Block A Focal Industrial Centre 21 Man Lok Street Hungghom Kowloon Hong Kong (5/3,371 shares of and in the Section C of Kowloon Marine Lot No. 113)	Gross Floor Area: 1,585 sq.ft. (147.3 sq.m.) Saleable Area: 1,264 sq.ft. (117.4 sq.m.) The property is held from the Government under Conditions of Exchange No. 11128 for a term of 75 years from September 15, 1972	Office The property is let for a term of 2 years commencing from May 12, 1999	100%

MAJOR PROPERTIES

Location	Description and Tenure	Use	Group's Interest
Car Parking Space No. L30 on Ground Floor Focal Industrial Centre 21 Man Lok Street Hungghom Kowloon Hong Kong (2/3,371 shares of and in the Section C of Kowloon Marine Lot No. 113)	The property is held from the Government under the Conditions of Exchange No. 11128 for a term of 75 years from September 15, 1972	Car Park The property is let for a term of 2 years commencing from September 1, 2000	100%
Car Park No. CP3 on 3rd Floor, Valverde 11 May Road Mid-levels Hong Kong (7/9,100 shares of and in Inland Lot No. 8213)	The property is held from the Government under the Conditions of Exchange No. 9660 for a term of 75 years renewable for 75 years from August 21, 1911	Car Park	100%
Flat A on 33rd Floor, Valverde, No. 11 May Road, Mid-levels, Hong Kong (80/9,100th shares of and in Inland Lot No. 8213)	Gross Floor Area:1,063 sq.ft. (98.8 sq.m.) Saleable Area: 850 sq.ft. (79 sq.m.) The property is held from the Government under the Conditions of Exchange No. 9660 for a term of 75 years renewable for 75 years from August 21, 1911	Residential The property is let for a term of 2 years commencing from November 13, 2000	100%
19th Floor, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong (6,000/168,000th shares of and in the Remaining Portion of Kowloon Inland Lot No. 10453 and 7700 and Kowloon Inland Lot No. 8511)	Gross Floor Area:10,880 sq.ft. (1,010.8 sq.m.) Saleable Area: 7,800 sq.ft. (724.6 sq.m.) The property is held from the Government and Conditions of Regrant No. 8203 for a term of 150 years from December 25, 1898 and June 24, 1889	Office The property is let for a term of 3 years commencing from March 15, 1999	100%

MAJOR PROPERTIES

Location	Description and Tenure	Use	Group's Interest
Group II			
19 Blocks of Man Sang Industrial City Min Sheng Main Road Gong Ming Zhen Bao An Shenzhen the PRC	Gross Floor Area: 451,248.4 sq.ft. (41,922 sq.m.) The property comprises 17 blocks of industrial buildings and 2 blocks of residential buildings The property has been granted for a land use term of 50 years from September 1, 1991 to September 1, 2041	Factories and residential The property is let to various tenants for terms from 1 year to 3 years	100%

Group I – Investment properties held by the Group in Hong Kong

Group II – Investment properties held by the Group in the PRC

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2001 Annual General Meeting of Man Sang International Limited (the “Company”) will be held at Tang Room I, 3/F., Sheraton Hong Kong Hotel & Towers, 20 Nathan Road, Tsimshatsui, Kowloon, Hong Kong on Thursday, August 2, 2001 at 2:30 p.m. for the following purposes:

1. To receive and consider the Reports of Directors and Auditors and the audited financial statements for the year ended March 31, 2001.
2. To re-elect a director and to authorize the board of directors to fix the directors’ remuneration for the ensuing year.
3. To re-appoint the auditors and to authorize the board of directors to fix their remuneration.
4. As special business, to consider, and if thought fit, pass with or without amendments, the following resolutions as ordinary resolutions:

A. **“THAT:**

- (i) subject to paragraph (iii) of this Resolution, pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional share(s) of HK\$0.10 each in the capital of the Company and to make or grant offers, agreements and options (including warrants) which might require the exercise of such power be and is hereby generally and unconditionally approved;
- (ii) the approval in paragraph (i) of this Resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements and options (including warrants) which might require the exercise of such power after the end of the Relevant Period;

NOTICE OF ANNUAL GENERAL MEETING

(iii) the aggregate nominal value of share capital to be allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) and to be issued by the directors of the Company pursuant to the approval in paragraph (i) of this Resolution, otherwise than pursuant to (a) a Rights Issue (as hereinafter defined), or (b) an issue of shares upon the exercise of the subscription rights attaching to any warrants which may be issued by the Company from time to time, or (c) an issue of shares under any option scheme or similar arrangement for the time being adopted for the grant or issue to employees (including executive directors) of the Company and/or any of its subsidiaries of shares or rights to acquire shares in the capital of the Company, or (d) any scrip dividend scheme or similar arrangement providing for the allotment and issue of shares in lieu of the whole or part of a dividend on shares in accordance with the Bye-laws of the Company, shall not exceed 20 per cent of the aggregate nominal value of the share capital of the Company in issue at the date of passing this Resolution and the said approval shall be limited accordingly; and

(iv) for the purpose of this Resolution:

“Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:

- (a) the conclusion of the next annual general meeting of the Company; or
- (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or the Companies Act 1981 of Bermuda or any other applicable laws of Bermuda to be held; or

NOTICE OF ANNUAL GENERAL MEETING

- (c) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution; and

“Rights Issue” means an offer of shares or issue of options to subscribe for shares open for a period fixed by the directors of the Company to holders of shares whose names appear on the register of members of the Company on a fixed record date in proportion to their then holdings of such shares (subject to such exclusion or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company).”

B. “THAT:

- (i) subject to paragraph (ii) and (iii) of this Resolution, the exercise by the directors of the Company during the Relevant Period (as hereinafter defined) of all powers of the Company to repurchase securities of the Company on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) or on any other stock exchange on which the securities of the Company may be listed and is recognised by the Securities and Futures Commission and the Stock Exchange for this purpose, subject to and in accordance with all applicable laws and/or the requirements of the Rules Governing the Listing of Securities on the Stock Exchange or of any other stock exchange as amended from time to time, be and is hereby generally and unconditionally approved;

NOTICE OF ANNUAL GENERAL MEETING

- (ii) the aggregate nominal value of shares to be repurchased by the Company pursuant to paragraph (i) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate nominal value of the share capital of the Company in issue at the date of passing this Resolution, and the authority pursuant to paragraph (i) of this Resolution shall be limited accordingly;
- (iii) the aggregate amount of subscription rights attached to the warrants to be repurchased by the Company pursuant to paragraph (i) of this Resolution during the Relevant Period shall not exceed 10 per cent of the aggregate amount of subscription rights attached to such warrants outstanding at the date of passing this Resolution, and the authority pursuant to paragraph (i) of this Resolution shall be limited accordingly; and
- (iv) for the purposes of this Resolution, “Relevant Period” means the period from the passing of this Resolution until whichever is the earliest of:
 - (a) the conclusion of the next annual general meeting of the Company; or
 - (b) the expiration of the period within which the next annual general meeting of the Company is required by the Bye-laws of the Company or the Companies Act 1981 of Bermuda or any other applicable laws of Bermuda to be held; or
 - (c) the passing of an ordinary resolution by shareholders of the Company in general meeting revoking or varying the authority given to the directors of the Company by this Resolution.”

NOTICE OF ANNUAL GENERAL MEETING

- C. **“THAT** conditional upon Resolution Nos. 4A and 4B as set out in the notice convening this meeting being passed, the general mandate granted to the directors of the Company and for the time being in force to exercise the powers of the Company to allot, issue and deal with additional shares pursuant to Resolution No. 4A as set out in the notice convening this meeting be and is hereby extended by the addition to the aggregate nominal value of the share capital of the Company which may be allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to such general mandate of an amount representing the aggregate nominal value of the share capital of the Company repurchased by the Company under the authority granted pursuant to Resolution No. 4B as set out in the notice convening this meeting, provided that such extended amount shall not exceed 10 per cent of the aggregate nominal value of the share capital of the Company in issue as at the date of passing this Resolution.”

By Order of the Board

Ho Suk Han Sophia

Secretary

Hong Kong, June 28, 2001

Principal Office in Hong Kong:

21/F, Railway Plaza

39 Chatham Road South

Tsimshatsui

Kowloon

Hong Kong

NOTICE OF ANNUAL GENERAL MEETING

Notes:

- (1) A member of the Company entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and in the event of a poll, vote for him/her. A proxy need not be a member of the Company.
- (2) To be valid, a form of proxy, together with power of attorney or other authority (if any), must be deposited at the Company's branch registrar in Hong Kong, Secretaries Limited, at 5/F, Wing On Centre, 111 Connaught Road Central, Hong Kong not less than 48 hours before the time appointed for holding the meeting or at any adjourned meeting thereof.
- (3) An explanatory statement regarding Resolution Nos. 4A, 4B and 4C above containing the information necessary to enable shareholders to make an informed decision on whether to vote for or against the resolutions will be set out in a separate document and despatched to shareholders together with the 2001 Annual Report.