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This circular is solely for the purpose of providing shareholders with certain information in connection with a major transaction of the Company and is not an offer to sell or solicitation of an offer to buy any securities.



MAN SANG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 938)

MAJOR TRANSACTION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF SMARTEST MAN HOLDINGS LIMITED

A letter from the board of the directors of Man Sang International Limited (the "Company") is set out on pages 4 to 15 of this circular.

31 March 2006

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DEFINITIONS

In this circular, the following expressions have the meanings set out below unless the context otherwise requires.

“Acquisition”	the acquisition of the entire issued share capital of Smartest Man by the Purchaser from the Vendor pursuant to the SP Agreement
“Announcement”	the announcement of the Company dated 10 February 2006
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	Man Sang International Limited, a company incorporated in Bermuda with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Completion”	completion of the Acquisition
“Completion Date”	the third business day immediately following the day on which all of the conditions in the SP Agreement are satisfied or waived, or such later date as may be mutually agreed by the parties in writing which was 15 February 2006
“Consideration”	the consideration of HK\$57 payable by the Purchaser to the Vendor under the SP Agreement
“Director(s)”	director(s) including independent non-executive director(s) of the Company
“Enlarged Group”	the Group after Completion of the Acquisition
“Establishment Contract”	the establishment contract dated 24 January 2006 entered into between the HK Company, Zhuji City Shanxiahu Town Government (諸暨市山下湖鎮人民政府) and Zhuji Municipal Government (諸暨市人民政府) acting as supervising party in relation to the establishment, management and development of Zhuji Jewellery City, details of which are set out in the paragraph headed “Establishment Contract” in the section headed “Letter from the Board” of this circular
“Group”	the Company and its subsidiaries
“HK Company”	China Pearls and Jewellery City Holdings Limited, a company incorporated in Hong Kong with limited liability and 49% of its issued share capital is owned by Smartest Man

DEFINITIONS

“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Independent Third Party(ies)”	person(s) or company(ies) together with its/their beneficial owner(s) who or which is/are, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, are not connected person(s) (as defined in the Listing Rules) to the Company
“Investment”	the investment by the Purchaser into the HK Company for the purpose of the HK Company contributing to the total investment and the registered capital of WOFE
“Latest Practicable Date”	29 March 2006, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained in this circular
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People’s Republic of China
“Purchaser”	Man Sang Enterprise Ltd.
“Sale Share”	1 share of US\$1.00 each in the share capital of Smartest Man, representing its entire issued share capital
“Share(s)”	ordinary share(s) of HK\$0.10 each in the share capital of the Company
“Shareholder(s)”	holders of the Shares
“Smartest Man”	Smartest Man Holdings Limited, a company incorporated in the British Virgin Islands with limited liability and holds 49% interest in the issued share capital of the HK Company
“SP Agreement”	the conditional share sale and purchase agreement dated 10 February 2006 entered into between the Purchaser and the Vendor in relation to the Acquisition
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Vendor”	Mr. Cheung Yip Shun, the ultimate beneficial owner of the entire issued share capital of Smartest Man and an Independent Third Party

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“WOFE”	a wholly-owned foreign enterprise established in the PRC and owned as to 100% by the HK Company for the purpose of developing and managing Zhuji Jewellery City
“Zhuji Jewellery City”	Zhuji International Jewellery City (諸暨國際珠寶城), details of which are set out in the sub-paragraph headed “Zhuji Jewellery City” under the paragraph headed “Information on Zhuji Jewellery City” in the section headed “Letter from the Board” of this circular
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC
“US\$”	United States dollars, the lawful currency of the United States of America
“%”	per cent.

In this circular, except as otherwise indicate, US\$ has been translated into HK\$ at the rate of US\$1.00 = HK\$7.80 for reference purpose only.

LETTER FROM THE BOARD



MAN SANG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock Code: 938)

Executive Directors:

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

Independent non-executive Directors:

Lee Kang Bor, Thomas
Kiu Wai Ming, Kenneth
Lau Chi Wah, Alex

Registered Office:

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Bermuda

*Head office and principal place of
business in Hong Kong:*

21/F, Railway Plaza
39 Chatham Road South
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Hong Kong

31 March 2006

To Shareholders,

Dear Sir or Madam,

MAJOR TRANSACTION RELATING TO THE ACQUISITION OF THE ENTIRE ISSUED SHARE CAPITAL OF SMARTEST MAN

1. INTRODUCTION

As disclosed in the Announcement, the Purchaser (a wholly owned subsidiary of the Company) and the Vendor entered into the SP Agreement on 10 February 2006 pursuant to which, the Purchaser has agreed to acquire and the Vendor has agreed to sell the entire issued share capital of Smartest Man. To the best of the Directors' knowledge, the sole asset of Smartest Man is its 49% legal and beneficial interest in the issued share capital of the HK Company, whose sole asset is its 100% equity interest in WOFE established under the laws of the PRC.

On 24 January 2006, the HK Company entered into the Establishment Contract with Zhuji City Shanxiahua Town Government and Zhuji Municipal Government acting as supervising party. As Zhuji City Shanxiahua Town Government is under the administrative jurisdiction of Zhuji Municipal Government, Zhuji Municipal Government is able to discharge its supervisory role by procuring and ensuring that Zhuji City Shanxiahua Town Government duly performs its obligations under the Establishment Contract.

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The Establishment Contract contains terms agreed between, amongst others, the HK Company and Zhuji City Shanxiahua Town Government regarding the establishment of WOFE and the development and management of Zhuji Jewellery City and other related matters. The Establishment Contract constitutes a legally binding agreement between the parties thereto and the Directors believe that all necessary approvals have been obtained from the relevant authorities in the PRC for entering into the Establishment Contract. As stipulated in the Establishment Contract, any party failing to perform its commitments thereunder shall be liable to the other parties for breach of contract and has to compensate the other parties for all losses arisen from such breach.

As consideration for the acquisition of the Sale Share, the Purchaser will pay an amount equal to the aggregate of the par value of the Sale Share (US\$1.00) and the value of the investment made by Smartest Man in the HK Company (being an amount equal to the par value of 49 shares of HK\$1.00 each in the capital of the HK Company), being HK\$57. In addition, pursuant to the Establishment Contract, the HK Company agrees to establish WOFE with a registered capital of not less than US\$30,000,000 (equivalent to approximately HK\$234,000,000).

On 23 March 2006, WOFE was established with a total investment of US\$40,000,000 (equivalent to approximately HK\$312,000,000) and a registered capital of US\$20,000,000 (equivalent to approximately HK\$156,000,000), which differs from the registered capital of not less than US\$30,000,000 (equivalent to approximately HK\$234,000,000) as stated in the Establishment Contract. The Board believes that the reduced registered capital of WOFE will not have any material adverse effect on the Company since one of the approval authorities for the establishment of the WOFE, i.e. Zhuji Municipal Government (諸暨市人民政府), is the supervising party to the Establishment Contract and having administrative jurisdiction over Zhuji City Shanxiahua Town Government (諸暨市山下湖鎮人民政府), which is also a contracting party to the Establishment Contract.

The Acquisition and the Investment (taking into account of the approved total investment and the approved registered capital of WOFE) constitute a major transaction for the Company pursuant to Chapter 14 of the Listing Rules and is, thus, subject to the approval of the Shareholders. Written approval of the Acquisition and the Investment has been obtained from Man Sang International (B.V.I.) Limited, Cheng Chung Hing and Cheng Tai Po, which in aggregate holds approximately 67.113% of the entire issued share capital of the Company as at the Latest Practicable Date. Each of Man Sang International (B.V.I.) Limited and its ultimate beneficial owners, Cheng Chung Hing and Cheng Tai Po is not an interested party in the Acquisition and the Investment and their interests in the Acquisition and the Investment are no different from other Shareholders. Therefore, they are not required to abstain from voting if the Company was to convene a general meeting for the approval of the Acquisition and the Investment. As such, pursuant to Rule 14.44 of the Listing Rules, the written approval provided by Man Sang International (B.V.I.) Limited, Cheng Chung Hing and Cheng Tai Po constitutes a valid approval of the Acquisition and the Investment and the Company will not be required to convene a physical meeting to approve the Acquisition and the Investment and no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition and the Investment.

The purpose of this circular is to provide you with details of the terms of the Acquisition and the Investment.

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2. SP AGREEMENT

2.1 Background

On 10 February 2006, the Purchaser (a wholly owned subsidiary of the Company) and the Vendor entered into the SP Agreement under which the Purchaser has agreed to acquire and the Vendor has agreed to sell the entire issued share capital of Smartest Man, which in turn is beneficially interested in 49% of the issued share capital of the HK Company. The sole asset of the HK Company is its 100% equity interest in WOFE, a wholly owned foreign enterprise established in the PRC on 23 March 2006.

2.2 Date

10 February 2006

2.3 Parties

Purchaser: Man Sang Enterprise Ltd.

Vendor: Mr. Cheung Yip Shun, the registered holder and beneficial owner of the entire issued share capital of Smartest Man

Mr. Cheung Yip Shun is an existing director of Smartest Man. He is an expert in China trade and is a long-term friend of one of the Directors. The Directors confirm that to the best of their knowledge, information and belief, having made all reasonable enquiries, Mr. Cheung Yip Shun is an Independent Third Party.

2.4 Conditions

Completion of the SP Agreement is conditional upon fulfillment or waiver (by the Purchaser), as the case may be, of the following conditions:

- (i) the warranties remaining true and accurate and not misleading from the date of the SP Agreement to the Completion Date inclusive;
- (ii) the Vendor having complied fully with the pre-completion obligations and otherwise having performed all of the covenants and agreements required to be performed by it under the SP Agreement on or prior to the Completion Date which principally include but not limited to the obligations of not changing the nature and scope of business of Smartest Man and the HK Company; not procuring Smartest Man and the HK Company to enter into any guarantee or indemnity or to acquire or dispose of any material assets or to declare any dividends or to make any payment to the Vendor prior to Completion;
- (iii) all necessary consents required to be given by third parties to the Vendor for the consummation by the Vendor of the transactions contemplated under the SP Agreement having been granted (including any relevant governmental or official authorities), and being in full force and effect, for the sale and purchase of the entire issued share capital of Smartest

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Man and no applicable statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the entire issued share capital of Smartest Man or the operation of the business of Smartest Man or the HK Company after completion having been proposed, enacted or taken by any governmental or official authority;

- (iv) no bona fide investigation, action, suit, injunction, order or proceedings being in effect, pending or genuinely threatened as of the Completion Date before any court of competent jurisdiction or by any relevant governmental body which seeks to restrain, prohibit, impose limitations or conditions or otherwise challenge the transactions contemplated by the SP Agreement; and
- (v) the execution of a written approval by Man Sang International (B.V.I.) Limited, Mr. Cheng Chung Hing and Cheng Tai Po, of approving and/or ratifying the SP Agreement and the Establishment Contract and the transactions contemplated therein including but not limited to the Acquisition and the Investment pursuant to Rule 14.44 of the Listing Rules.

The Purchaser may in its absolute discretion at any time waive in writing any of the conditions as set out in paragraphs (i) to (v) above (or any part thereof) and such waiver may be made subject to such terms and conditions as are determined by the Purchaser. The Purchaser shall not be entitled to exercise such right of waiver in respect of paragraph (v) above if as a result of such waiver the Purchaser would be in breach of the Listing Rules, the rules or regulations of any relevant governmental, statutory or regulatory authority or agency, or any other person or body, in Hong Kong or Bermuda.

The Vendor shall use its best endeavours to procure the fulfillment of the conditions as set out in paragraphs (i) to (v) above on or before the 28 February 2006. If any of the above conditions has not been fully fulfilled or waived by 28 February 2006, the Purchaser shall not be bound to proceed with the purchase of the Sale Share and the SP Agreement shall cease to have any effect save in respect of claims arising out of any antecedent breach of the SP Agreement.

As at the Latest Practicable Date, all the conditions as set out in paragraphs (i) to (v) above have been fulfilled and the Acquisition was completed on 15 February 2006.

2.5 Consideration

As consideration for the acquisition of the Sale Share, the Purchaser will pay an amount equal to the aggregate of the par value of the Sale Share (US\$1.00) and the value of the investment made by Smartest Man in the HK Company (being an amount equal to the par value of 49 shares of HK\$1.00 each in the capital of the HK Company), being HK\$57. In addition, pursuant to the Establishment Contract, the HK Company agrees to establish WOFE with a registered capital of not less than US\$30,000,000 (equivalent to approximately HK\$234,000,000).

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Upon completion of the Acquisition, the Company will be indirectly interested in 49% of the registered capital of WOFE. The committed amount of investment by the HK Company under the Establishment Contract was at least US\$30,000,000 (equivalent to approximately HK\$234,000,000). It was originally disclosed in the Announcement that the Company is expected to be obliged to contribute into the HK Company in proportion to its shareholding in the HK Company, being an amount of not less than US\$14,700,000 (equivalent to approximately HK\$114,660,000), for the purpose of the HK Company contributing such amount into the registered capital of WOFE upon its establishment.

On 23 March 2006, WOFE was established with a total investment of US\$40,000,000 (equivalent to approximately HK\$312,000,000) and a registered capital of US\$20,000,000 (equivalent to approximately HK\$156,000,000). Under such circumstances, the Company will be obliged to contribute into the HK Company in proportion to its shareholding in the HK Company, an amount of US\$19,600,000 (equivalent to approximately HK\$152,880,000) as compared to an amount of not less than US\$14,700,000 (equivalent to approximately HK\$114,660,000) as disclosed in the Announcement, for the purpose of the HK Company contributing such amount into the total investment and the registered capital of WOFE.

The Investment will be paid into the HK Company by way of shareholder's loan. The other independent shareholders of the HK Company will make their respective contribution to the HK Company in proportion to their respective shareholding in the HK Company for the purpose of the HK Company contributing such amount into the total investment and registered capital of WOFE, although there is no shareholders' agreement amongst Smartest Man and the other independent shareholders of the HK Company. On 7 March 2006, the HK Company has passed a written shareholders' resolutions to approve the proportional contribution arrangement and to ensure that all shareholders of the HK Company will contribute such amount of fund (whether by way of capital or shareholders' loan) as resolved by the board of directors of the HK Company from time to time pro-rata to their respective shareholding percentage in the HK Company, and in the event that any of the shareholders shall fail in making its proportional contribution, the other shareholders of the HK Company will be entitled to take up the shareholding of such shareholder and will make contributions accordingly.

The Investment does not represent the maximum commitment of the Company in WOFE. Since the Zhuji Jewellery City is still in its infant stage of planning and development, the Company does not have, and is not able to ascertain at this stage, an accurate estimate of its development costs. Based on the approved total investment of WOFE, the Board estimates that the initial development costs for the Zhuji Jewellery City should be approximately US\$40,000,000 which includes the cost for acquiring the land use rights, demolishing the existing buildings and facilities on the existing Zhuji Pearl Market and developing new facilities. The Company will perform further researches and studies subsequent to this Acquisition to ascertain a more accurate estimated development costs in due course. In the event that the Company is required to make further investment to WOFE in the future, the Company will make appropriate disclosure in accordance with the Listing Rules and the Company expects to satisfy any future funding requirement of WOFE out of the available internal resources of the Group at that time.

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The consideration was determined after arm's length negotiations between the Purchaser and the Vendor. The initial amount of US\$40,000,000 to be contributed by the HK Company for the development of Zhuji Jewellery City is based on the approved total investment of WOFE. The Board considers that the terms of the SP Agreement and the Establishment Contract, including the consideration for the Acquisition and the initial amount to be contributed by the HK Company into Zhuji Jewellery City, are fair and reasonable and in the best interests of the Company and the Shareholders as a whole.

2.6 Completion

Completion of the SP Agreement shall take place on the third business day immediately following the day on which all of the above conditions are satisfied or waived, or such later date as may be mutually agreed by the parties in writing.

As all the above conditions have been satisfied, completion of the SP Agreement took place on 15 February 2006.

3. ESTABLISHMENT CONTRACT

3.1 Date

24 January 2006

3.2 Parties

The HK Company, Zhuji City Shanxiahu Town Government (諸暨市山下湖鎮人民政府) and Zhuji Municipal Government (諸暨市人民政府), acting as supervising party.

3.3 Establishment of WOFE

The HK Company agreed to invest in Zhuji Municipal Pearl Processing Area (諸暨市珍珠產品加工園區) and establish WOFE for the development of Phase 1 of Zhuji Jewellery City. On 23 March 2006, WOFE was established with a total investment of US\$40,000,000 (equivalent to approximately HK\$312,000,000) and a registered capital of US\$20,000,000 (equivalent to approximately HK\$156,000,000) and such registered capital shall be contributed by the HK Company on or before 30 November 2006.

3.4 Acquisition of Land Use Rights

Zhuji City Shanxiahu Town Government has agreed to procure the provision and transfer of 356,987.80 square metres of land use rights to the HK Company or WOFE, as the case may be, on or before 30 June 2006 for the purpose of constructing Phase 1 of Zhuji Jewellery City at an agreed price which has been determined, to the extent possible, with reference to the prevailing market prices and subject to such discounts as agreed through mutual negotiations between the parties to the Establishment Contract. Upon the transfer of such land use right to WOFE or the HK Company, all existing buildings, facilities and structures erected thereupon shall

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be demolished and ready for development purposes. In association with such transfer, the HK Company or WOFE, as the case may be, will be required to subsidize Zhuji City Shanxiahu Town Government at an agreed price for the demolition of properties in the land redemption process. The agreed price for such subsidy is to be paid by the HK Company or WOFE (out of its registered capital) on top of the consideration for the transfer of land and will not be set-off against the agreed transfer price.

Zhuji City Shanxiahu Town Government (as authorized by the owners) has agreed to procure the transfer of 53,179 square metres of land use rights together with all buildings and facilities erected thereon (being the existing Zhuji Pearl Market) to the HK Company or WOFE, as the case may be, on or before 30 September 2006 at an agreed price which has been determined, to the extent possible, with reference to the prevailing market prices and subject to such discounts as agreed through mutual negotiations between the parties to the Establishment Contract. The existing owner of such land is Zhuji Pearl Market Company Limited (諸暨珍珠市場有限責任公司) who is an Independent Third Party. As part of the development plan of Zhuji Jewellery City, the existing Zhuji Pearl Market is expected to be demolished, depending on the development progress of the land as described in the preceding paragraph, and new buildings will be constructed forming part of the Zhuji Jewellery City.

All the land use right to be acquired by the WOFE as mentioned above are currently contemplated for use in the Phase 1 development of Zhuji Jewellery City and are all situated at Zhuji Municipal Pearl Processing Area (諸暨市珍珠產品加工園區). The HK Company shall procure the completion of Phase 1 of Zhuji Jewellery City within 30 months from the latest date of (i) completion of all legal formalities effecting transfer of land use rights to WOFE or the HK Company, (ii) approval granted for the establishment of the project, (iii) construction approval granted for the project and (iv) approval documents granted for commencement of construction. Under the Establishment Contract, the Company, through the HK Company, is entitled to participate in the future development of Zhuji Jewellery City. Depending on the operational results of Phase 1 of Zhuji Jewellery City, WOFE may acquire additional land use right for future developments, i.e. Phase 2 etc, of Zhuji Jewellery City and the Company will make further disclosures in accordance with the Listing Rules where appropriate.

3.5 Duties and obligations of the HK Company

The HK Company has agreed to certain duties and obligations under the Establishment Contract, including:

- (i) to be responsible for injecting and arranging for the necessary capital of the WOFE;
- (ii) to determine the operational details of Zhuji Jewellery City;
- (iii) to provide all documentations required for obtaining all governmental approvals for the establishment of Zhuji Jewellery City;
- (iv) to complete, at its own costs, all infrastructural construction within the designated area of Zhuji Jewellery City;

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- (v) to carry out effective promotional activities locally and globally; and
- (vi) to comply with all applicable laws, regulations and policies of the PRC in managing, selling, leasing or operating all properties, ancillary facilities and buildings of Zhuji Jewellery City.

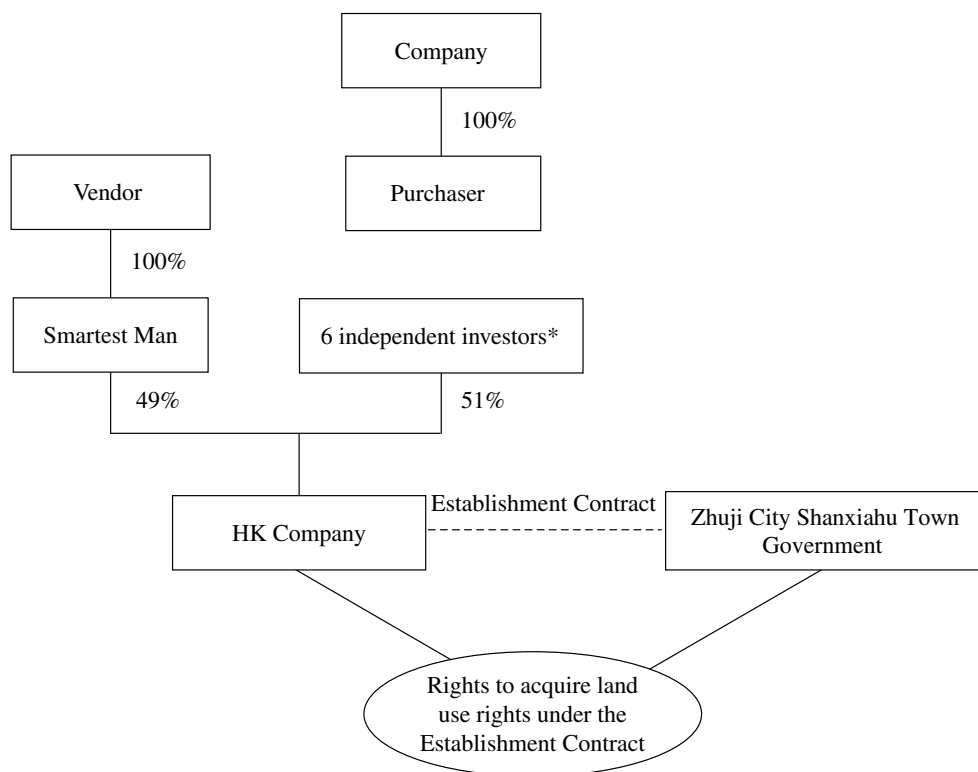
4. INFORMATION ON ZHUJI JEWELLERY CITY

4.1 Summary

The HK Company has entered into the Establishment Contract relating to the establishment of WOFE and the participation in the establishment, development and management of Zhuji Jewellery City in Shanxiahu Town, Zhuji Municipal, Zhejiang Province, the PRC.

4.2 Structure of the Transaction

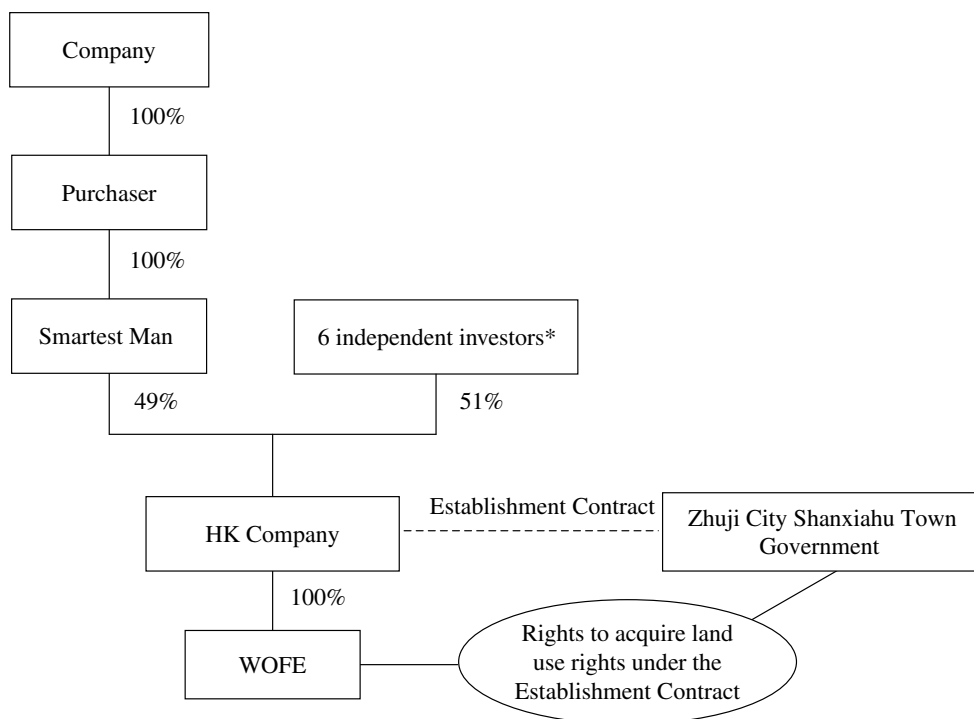
Transaction Structure: before establishment of WOFE



* The 6 independent investors are Tiptop Sky Holdings Limited (ultimate beneficial owner of which being Mr. Lin Xian Fu), Hong Kong East Pearl Group Co., Limited (ultimate beneficial owner of which being Mr. Ruan Tie Jun), Grace Pearl (H.K.) Company Limited (ultimate beneficial owner of which being Mr. Zhan Wei Jian), Shanshui Pearl Corporation (Hong Kong) Co. Limited (ultimate beneficial owner of which being Mr. Wang Li Miao), Tears of Angel Pearl (Hong Kong) Co., Limited (ultimate beneficial owner of which being Mr. Qi Tie Biao) and Shanxiahu Pearl (H.K.) Company Limited (ultimate beneficial owner of which being Ms. Chan Xia Ying), which together with their ultimate beneficial owners are all Independent Third Parties and are all engaged in the business of purchasing, processing and trading of pearls and pearl products in the PRC.

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Transaction Structure: as at the date of this circular



* The 6 independent investors are Tiptop Sky Holdings Limited (ultimate beneficial owner of which being Mr. Lin Xian Fu), Hong Kong East Pearl Group Co., Limited (ultimate beneficial owner of which being Mr. Ruan Tie Jun), Grace Pearl (H.K.) Company Limited (ultimate beneficial owner of which being Mr. Zhan Wei Jian), Shanshui Pearl Corporation (Hong Kong) Co. Limited (ultimate beneficial owner of which being Mr. Wang Li Miao), Tears of Angel Pearl (Hong Kong) Co., Limited (ultimate beneficial owner of which being Mr. Qi Tie Biao) and Shanxiahu Pearl (H.K.) Company Limited (ultimate beneficial owner of which being Ms. Chan Xia Ying), which together with their ultimate beneficial owners are all Independent Third Parties and are all engaged in the business of purchasing, processing and trading of pearls and pearl products in the PRC.

4.3 Smartest Man, the HK Company and WOFE

Smartest Man is an investment holding company established in the British Virgin Islands with limited liability. It has no business activity save for being beneficially interested in 49% of the registered capital of the HK Company. The remaining 51% of the issued share capital of the HK Company is owned by 6 investors who are Independent Third Parties.

The HK Company is an investment holding company incorporated in Hong Kong with limited liability. It has no business activity save for entering into the Establishment Contract. Its sole asset is its 100% equity interest in WOFE established under the laws of the PRC. WOFE will be principally engaged in the business of developing and managing the Zhuji Jewellery City, including by way of leasing and/or selling some properties thereof. On 23 March 2006, WOFE was established with a total investment of US\$40,000,000 (equivalent to approximately HK\$312,000,000) and a registered capital of US\$20,000,000 (equivalent to approximately HK\$156,000,000).

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As at the Latest Practicable Date, the Purchaser is legally and beneficially holding the entire issued share capital of Smartest Man and through Smartest Man, is legally and beneficially holding 49% interest in the issued share capital of the HK Company which is interested in the entire registered capital of WOFE. As both Smartest Man and the HK Company have not yet commenced any business and have no significant assets or liabilities as at the Latest Practicable Date, information relating to their respective turnovers and profits are not available.

As at the Latest Practicable Date, the Company is indirectly interested in 49% of the issued share capital of the HK Company. The financial results and positions of the HK Company will be equity accounted for in the consolidated financial statements of the Company and its subsidiaries in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants.

Under the contemplated shareholding structure of the HK Company pursuant to the Acquisition, the board of directors of the HK Company shall initially comprise of 11 directors in which the Company is entitled to appoint 5 directors while the other shareholders of the HK Company is entitled to appoint 6 directors.

4.4 Zhuji Jewellery City

Zhuji Jewellery City is to be developed into a large-scale, multi-purpose and modern international jewellery centre for the trading of pearls and jewellery, the processing, manufacturing, research and development of jewellery while at the same time providing related services including logistics, electronic commerce, exhibition and convention, accommodation, catering and entertainment.

Zhuji Jewellery City is located in Shanxiahu Town, Zhuji Municipal, Zhejiang Province, the PRC. Zhuji Municipal is the largest fresh water pearl nurturing and trading centre in the PRC.

5. REASONS FOR AND BENEFITS OF THE ACQUISITION AND THE INVESTMENT

The Group is principally engaged in the purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and jewellery products. The Group holds some properties for investment purpose.

Zhuji Municipal is the largest fresh water pearl nurturing and trading centre in the PRC with a long history of offering a comprehensive range of fresh water pearls and other pearl products. It is expected that the Acquisition and the Investment will attribute to the future success of the Group as it will not only widen the scope of business of, but also generate satisfactory return to, the Group. The Company expects that satisfactory return will be generated by participating in the Zhuji Jewellery City by expanding geographically, enlarging its customer base and building a global brand name in the industry, although the Company is unable to determine at present stage an expected timetable for such return. Moreover, the Group's properties portfolio will also become more diversified and synergy effects are expected to be generated in the Group's overall pearl business. Since

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the Group has been engaged in pearl business for years, the Acquisition and the Investment will enable the Group to gain access to more customers and to become one of the market leaders in pearl business in the future.

The Board believes that the terms of the SP Agreement and the Establishment Contract are fair and reasonable and in the interests of the Shareholders as a whole.

6. LISTING RULES IMPLICATIONS

The Acquisition and the Investment (taking into account the approval total investment and registered capital of WOFE) constitutes a major transaction for the Company pursuant to Chapter 14 of the Listing Rules.

Written approval of the Acquisition and the Investment has been obtained from Man Sang International (B.V.I.) Limited, Cheng Chung Hing and Cheng Tai Po, which holds approximately 67.113% of the entire issued share capital of the Company as at the Latest Practicable Date. Each of Man Sang International (B.V.I.) Limited and its ultimate beneficial owner, Cheng Chung Hing and Cheng Tai Po is not an interested party in the Acquisition and the Investment and their interests in the Acquisition and the Investment are no different from other Shareholders. Therefore, they are not required to abstain from voting if the Company was to convene a general meeting for the approval of the Acquisition and the Investment. As such, pursuant to Rule 14.44 of the Listing Rules, the written approval provided by Man Sang International (B.V.I.) Limited, Cheng Chung Hing and Cheng Tai Po constitutes a valid approval of the Acquisition and the Investment and the Company will not be required to convene a physical meeting to approve the Acquisition and the Investment and no Shareholder is required to abstain from voting if the Company were to convene a general meeting for the approval of the Acquisition and the Investment.

7. FINANCIAL EFFECTS OF THE ACQUISITION

As at the Latest Practicable Date, Smartest Man is a wholly-owned subsidiary of the Group and the HK Company is an associate of the Group. Since Smartest Man was effectively a newly formed company solely for the purpose of this Acquisition and had no significant assets or liabilities, and had not incurred any expenditure or earned any revenue, there will not be any material impact on the earnings of the Group immediately following the Acquisition. Any future operating results will be accounted for into our group using the equity method of accounting in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants from the date of this acquisition. As the Company will be obliged to contribute into the HK Company by way of shareholder's loan in proportion to its shareholding in the HK Company, being an amount of not less than US\$19,600,000 (equivalent to approximately HK\$152,880,000), for the purpose of the HK Company contributing such amount into the approved total investment of WOFE, the Group's bank balances will be reduced accordingly. However, in the Group's consolidated balance sheet, the amount of investment in associate will be increased by the same amount.

8. WORKING CAPITAL

The Board is of the opinion that, after taking into account the internal resources of the Group, the Group will have sufficient working capital for its normal business for the next twelve months from the date of this circular.

LETTER FROM THE BOARD

9. INDEBTEDNESS

As at 31 January 2006, the Group had banking facilities amounted to HK\$47 million which is pledged against certain properties of the Group and the Group did not utilize these banking facilities.

Save as mentioned above or as otherwise disclosed herein, as at 31 January 2006, the Group did not have other mortgages, charges, debentures, loan capital, bank overdrafts, loans, guarantees or other material contingent liabilities.

The Board confirms that there is no significant change in indebtedness of the Group as at 31 January 2006 up to the Latest Practicable Date.

10. DIRECTORS' VIEWS

Based on the relevant information disclosed herein, the Directors believe that the Acquisition and the Investment are fair and reasonable and are in the interests of the Group and the Company's shareholders as a whole.

11. ADDITIONAL INFORMATION

Your attention is also drawn to the financial information of the Group and general information set out in the appendices to this circular.

By Order of the Board
Man Sang International Limited
Cheng Chung Hing
Chairman

A summary of financial information relating to Smartest Man (extracted from the management accounts for the period from 9 December 2005 (date of incorporation) to the Latest Practicable Date) is as follows:

	<i>HK\$</i>
Assets	
Investment in the HK Company	49
Other receivable	8
	<hr/>
Net assets	57
	<hr/> <hr/>
Equity	
Issued share capital	8
Reserve	49
	<hr/>
Total equity	57
	<hr/> <hr/>
	<i>HK\$</i>
Profit/Loss	
Revenue	–
Expenses	–
	<hr/>
Net profit/loss	–
	<hr/> <hr/>

Smartest Man was a limited liability company incorporated in the British Virgin Islands on December 9, 2005. It was a newly established company with issued share capital of US\$1.00 divided into 1 share of US\$1.00 each and had not been engaged in any business or trading since its incorporation until the Completion Date. Based on the information available to us, it had no significant assets or liabilities and had not incurred any expenditure or earned any revenue or profit.

The sole asset of Smartest Man is its beneficial interest of holding 49% in the share capital of the HK Company. The HK Company is an investment holding company incorporated in Hong Kong on January 18, 2006 with limited liability. The issued share capital of the HK Company is HK\$100 divided into 100 shares of HK\$1.00 each. Its sole asset is its 100% equity interest in WOFE established under the law of the PRC. The WOFE is principally engaged in the business of developing and managing the Zhuji Jewellery City. Both Smartest Man and the HK Company have not yet commenced any business and had no significant assets or liabilities and had not incurred any expenditure or earned any revenue or profit.

The Establishment Contract provided for the establishment of the WOFE as a wholly-owned foreign enterprise. The WOFE has been established recently and therefore had not engaged in any business or trading. It had no significant assets or liabilities and it had not incurred any expenditure or earned any revenue.

No audited financial statements have been prepared for either Smartest Man or the HK Company. The management accounts for both Smartest Man and HK Company have no operating activity since its incorporation. Smartest Man has net assets of HK\$57, which represents its investment in the HK Company and other receivable.

The Company considers provision of the information in Rule 14.67 is therefore not relevant to its shareholders' assessment of the transaction. The transaction is in effect, the formation and funding of a new entity to carry out the project and therefore no accountants' report on the Acquisition was drawn up in this circular.

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

(i) Unaudited interim financial statements for the period ended September 30, 2005

Set out below is the unaudited condensed consolidated income statement, condensed consolidated balance sheet, consolidated statement of changes in equity, condensed consolidated cash flow statement and notes to the condensed financial statements, as extracted from the unaudited interim financial report of the Group for the period ended September 30, 2005.

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended September 30, 2005

	Notes	For the six months ended September 30,	
		2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited) (as restated)
Turnover	3	211,867	207,061
Cost of sales		(153,260)	(147,691)
Gross profit		58,607	59,370
Investment income		2,621	334
Net unrealised gain on financial assets at fair value through profit or loss/ other investments		1,485	116
Other operating income		2,417	3,532
Selling expenses		(4,457)	(4,445)
Administrative expenses		(31,662)	(39,401)
Profit from operations		29,011	19,506
Finance costs		–	(78)
Profit before taxation	4	29,011	19,428
Taxation	5	(5,166)	1,103
Net profit for the period		<u>23,845</u>	<u>20,531</u>
Earnings per share	7		
– Basic		<u>2.38 cents</u>	<u>2.05 cents</u>

CONDENSED CONSOLIDATED BALANCE SHEET

For the six months ended September 30, 2005

	Notes	September 30, 2005 HK\$'000 (unaudited)	March 31, 2005 HK\$'000 (audited) (as restated)
ASSETS AND LIABILITIES			
Non-current assets			
Investment properties		77,650	77,650
Property, plant and equipment		141,555	143,545
Available-for-sale financial assets/ Investment securities	8	–	–
Deferred tax assets		5,117	3,374
		<u>224,322</u>	<u>224,569</u>
Current assets			
Inventories		77,541	82,705
Trade and other receivables	9	81,134	54,629
Financial assets at fair value through profit or loss/Other investments		9,907	8,422
Bank balances and cash		238,774	229,350
		<u>407,356</u>	<u>375,106</u>
Current liabilities			
Trade and other payables	10	32,986	30,555
Taxation		8,338	1,661
		<u>41,324</u>	<u>32,216</u>
Net current assets		<u>366,032</u>	<u>342,890</u>
Total assets less current liabilities		<u>590,354</u>	<u>567,459</u>
Non-current liabilities			
Amount due to immediate holding company		53	2,245
Deferred tax liabilities		9,335	9,104
		<u>9,388</u>	<u>11,349</u>
Net Assets		<u>580,966</u>	<u>556,110</u>
CAPITAL AND RESERVES			
Share capital	11	100,074	90,977
Reserves		480,892	465,133
		<u>580,966</u>	<u>556,110</u>

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended September 30, 2005

	Share capital HK\$'000	Share premium HK\$'000	Other non- distributable reserve HK\$'000	Merger reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
Balance at April 1, 2004									
As previously reported	82,706	68,209	2,001	(200)	38,623	8,074	4,542	285,475	489,430
Prior period adjustment arising from changes in accounting policies									
- HKAS 40 (note 2(c))	-	-	-	-	(38,623)	-	-	38,623	-
- HKAS-INT 21 (note 2(d))	-	-	-	-	-	-	-	2,332	2,332
As restated	82,706	68,209	2,001	(200)	-	8,074	4,542	326,430	491,762
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	-	-	66	-	66
Net gain not recognized in the income statement	-	-	-	-	-	-	66	-	66
Capitalization on bonus issue of shares	8,271	(8,271)	-	-	-	-	-	-	-
Release on depreciation of leasehold land and buildings	-	-	-	-	-	(129)	-	129	-
Net profit for the period	-	-	-	-	-	-	-	20,531	20,531
Balance at September 30, 2004 (unaudited)	90,977	59,938	2,001	(200)	-	7,945	4,608	347,090	512,359
Revaluation increase on leasehold land and buildings	-	-	-	-	-	19,147	-	-	19,147
Deferred tax liability arising on revaluation of properties	-	-	-	-	-	(2,267)	-	-	(2,267)
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	-	-	(45)	-	(45)
Net gains not recognized in the income statement	-	-	-	-	-	16,880	(45)	-	16,835
Release on depreciation of leasehold land and buildings	-	-	-	-	-	(218)	-	218	-
Net profit for the period	-	-	-	-	-	-	-	26,916	26,916
Balance at March 31, 2005 (audited)	90,977	59,938	2,001	(200)	-	24,607	4,563	374,224	556,110
Exchange differences arising from translation of financial statements of overseas operations	-	-	-	-	-	-	1,011	-	1,011
Net gain not recognized in the income statement	-	-	-	-	-	-	1,011	-	1,011
Capitalization on bonus issue of shares	9,097	(9,097)	-	-	-	-	-	-	-
Release on depreciation of leasehold land and buildings	-	-	-	-	-	(484)	-	484	-
Net profit for the period	-	-	-	-	-	-	-	23,845	23,845
Balance at September 30, 2005 (unaudited)	100,074	50,841	2,001	(200)	-	24,123	5,574	398,553	580,966

Other non-distributable reserve was arising from the repurchase of shares by subsidiaries under the corporate reorganization in 1997.

The merger reserve represents the differences 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 reorganization in 1997.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended September 30, 2005

	For the six months ended	
	September 30,	
	2005	2004
	HK\$'000	HK\$'000
	(unaudited)	(unaudited)
Net cash from operating activities	10,048	48,540
Net cash from investing activities	1,393	58,401
Net cash used in financing activities	<u>(2,192)</u>	<u>(4,328)</u>
Net increase in cash and cash equivalents	9,249	102,613
Cash and cash equivalents at beginning of the period	229,350	90,451
Effect of foreign exchange rate changes	<u>175</u>	<u>6</u>
Cash and cash equivalents at end of the period, represented by bank balances and cash	<u><u>238,774</u></u>	<u><u>193,070</u></u>

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the six months ended September 30, 2005

1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules"), the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" and other relevant HKASs and Interpretations and the Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. ACCOUNTING POLICIES

The accounting policies adopted in these interim financial statements are consistent with those adopted in the Group's audited financial statements for the year ended March 31, 2005, except for the adoption of HKFRSs and HKASs as described below.

The HKICPA has issued a number of new and revised HKFRSs, HKASs and Interpretations ("HKAS-INT"), that are effective for adoption for the accounting periods commencing on or after January 1, 2005. The Group has adopted the following HKFRSs and HKASs which are pertinent to its operations and relevant to these interim financial statements. The comparative information has been restated as required, in accordance with the relevant requirements.

HKAS 1	Presentation of financial statements
HKAS 17	Leases
HKAS 32	Financial Instruments: Disclosure and Presentation
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS 40	Investment Property
HKAS-INT 21	Income Taxes – Recovery of Revalued Non-Depreciable Assets

These HKFRSs, HKASs and Interpretations prescribe new accounting measurement and disclosure practices. The major and significant effects of the adoption of these HKFRSs, HKASs and Interpretations on the Group's accounting policies and on amounts disclosed in the interim financial statements are summarized as follows:

- (a) In prior periods, leasehold land and buildings held for own use were stated at valuation less accumulated depreciation and any impairment losses.

Under HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payment cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight-line basis.

Since the values of land and buildings elements of the Group's leasehold properties held for own use cannot be allocated reliably, the entire lease payments are included in the cost of the land and buildings as finance lease in property, plant and equipment.

- (b) The adoption of HKAS 32 and HKAS 39 has resulted in a change of accounting policy for recognition, measurement and disclosure of financial instruments. Until March 31, 2005, investments of the Group were classified as either other investments and were stated in the balance sheet at fair value, or classified as investment securities and were stated in the balance sheet at cost less impairment.

In accordance with the provision of HKAS 39, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" and "available-for-sale financial assets" are carried at fair value, with changes in fair values recognised in profit or loss and equity respectively. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method.

On April 1, 2005, the Group's investment securities and other investments were redesignated as available-for-sale financial assets and financial assets at fair value through profit or loss respectively. HKAS 39 does not permit to recognise, derecognise and measure financial assets and liabilities on a retrospective basis, the comparative figures as presented in these unaudited condensed consolidated interim financial statements have not been restated.

- (c) The adoption of HKAS 40 has resulted in a change in accounting policy for investment property. Prior to this, changes in the value of investment properties are dealt with as movements in the investment property revaluation reserve. If the total of this reserve is insufficient to cover a deficit, the excess of the deficit is charged to the profit and loss account. Any subsequent revaluation surplus is credited to the profit and loss account to the extent of the deficit previously charged. After the adoption of HKAS 40, any changes in value of investment properties are dealt with in the profit and loss account and the amount held in investment property revaluation reserve has been transferred to the Group's accumulated profits.
- (d) The adoption of HKAS-INT 21 has resulted in a change in accounting policy for the deferred tax treatment on the Group's investment properties. Prior to April 1, 2005, deferred tax on changes in fair value of investment properties arising from revaluation was not provided on the basis that the recovery of the carrying amount would be through sale and was calculated at the tax rate applicable on eventual sale. Following the adoption of HKAS-INT 21, the deferred tax arising from revaluation of the investment properties is required to be valued on the basis that the recovery of the carrying amount of the properties would be through use and calculated at the profits tax rate and is charged to the profit and loss account. In the absence of any specific transitional provisions in HKAS-INT 21, this change in accounting policy has been applied retrospectively.
- (e) Potential impact of new standards not yet adopted

The Group has not early adopted the following new standards or interpretations that have been issued but are not yet effective. The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the financial statements of the Group.

HKAS 1 (Amendment)	Capital Disclosures
HKAS 19 (Amendment)	Actuarial Gains and Losses, Group Plans and Disclosures
HKAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intragroup Transactions
HKAS 39 (Amendment)	The Fair Value Option
HKAS 39 and HKFRS 4 (Amendment)	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HKFRS 1 and HKFRS 6	First-time Adoption of Hong Kong Financial Reporting Standards and Exploration for and Evaluation of Mineral Resources
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) – Int 4	Determining Whether an Arrangement Contains a Lease
HK (IFRIC) – Int 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
HK (IFRIC) – Int 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment

3. TURNOVER AND SEGMENT INFORMATION

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 period.

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

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

Segment information about these businesses is presented below:

Six months ended September 30, 2005 (unaudited)

	Pearls HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
Revenue			
External sales or rentals	211,867	1,843	213,710
Result			
Segment results	27,111	(1,345)	25,766
Unallocated other operating income			4,679
Unallocated corporate expenses			(1,434)
Profit from operations			29,011

Six months ended September 30, 2004 (unaudited)

	Pearls HK\$'000	Property investment HK\$'000 (as restated)	Consolidated HK\$'000 (as restated)
Revenue			
External sales or rentals	207,061	2,879	209,940
Result			
Segment results	21,801	(1,440)	20,361
Unallocated other operating income			1,092
Unallocated corporate expenses			(1,947)
Profit from operations			19,506

4. PROFIT BEFORE TAXATION

	For the six months ended September 30,	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Profit before taxation has been arrived at after charging:		
(a) Finance costs		
Interest on bank borrowings wholly repayable within 5 years	–	78
(b) Other items		
Costs of inventories	153,260	147,691
Depreciation and amortization of property, plant & equipment	3,536	3,400
Staff costs and related expenses (including directors' emoluments)	15,873	16,557

5. TAXATION

	For the six months ended September 30,	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited) (as restated)
Current tax:		
– Hong Kong	6,678	5,836
– People's Republic of China, other than Hong Kong (the "PRC")	–	(452)
	6,678	5,384
Deferred tax:		
– Current period	(1,512)	(6,487)
	5,166	(1,103)

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended September 30, 2005 and September 30, 2004. Income tax in the PRC is calculated at the rate of 15% of the income of the PRC subsidiaries for both periods.

6. DIVIDEND

The directors do not recommend the payment of an interim dividend (six months ended September 30, 2004: Nil) and propose that the profit for the period be retained. No dividend was paid during the period.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$23,845,000 (six months ended September 30, 2004: HK\$20,531,000) and on 1,000,740,000 (six months ended September 30, 2004: 1,000,740,000) shares in issue during the period.

The number of ordinary shares for both periods for the purpose of basic earnings per share has been adjusted for the bonus issue approved pursuant to the annual general meeting held on August 1, 2005.

The adjustments to comparative earnings per share, arising from the bonus issue and the change in accounting policies as described in note 2 above, are as follows:

	<i>HK cents</i>
Reported figure before adjustments	5.38
Adjustment arising from the bonus issue	(0.49)
Adjustment arising from the adoption of HKAS 40	(3.34)
Adjustment arising from the adoption of HKAS-INT 21	0.50
	<hr/>
Restated figure	<u>2.05</u>

No diluted earnings per share has been presented for both periods because there are no dilutive potential ordinary shares in issue for the six months ended September 30, 2005 and September 30, 2004.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES

	September 30, 2005 <i>HK\$'000</i> (unaudited)	March 31, 2005 <i>HK\$'000</i> (audited)
Unlisted investments in the PRC, at cost	5,586	5,586
Impairment loss	<u>(5,586)</u>	<u>(5,586)</u>
	<hr/> <u>–</u>	<hr/> <u>–</u>

9. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables of the Group are trade receivables of HK\$71,878,000 (March 31, 2005: HK\$47,450,000) and their aged analysis after credit period is as follows:

	September 30, 2005 <i>HK\$'000</i> (unaudited)	March 31, 2005 <i>HK\$'000</i> (audited)
0 – 60 days	71,878	46,595
61 – 120 days	<u>–</u>	<u>855</u>
	<hr/> <u>71,878</u>	<hr/> <u>47,450</u>

10. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$12,156,000 (March 31, 2005: HK\$8,588,000) and their aged analysis after credit period is as follows:

	September 30, 2005 <i>HK\$'000</i> (unaudited)	March 31, 2005 <i>HK\$'000</i> (audited)
0 – 60 days	11,599	8,270
61 – 120 days	343	315
>120 days	<u>214</u>	<u>3</u>
	<hr/> <u>12,156</u>	<hr/> <u>8,588</u>

11. SHARE CAPITAL

	Ordinary shares of HK\$0.10 each	
	No. of shares '000	HK\$'000
Authorised:		
At April 1, 2005 and September 30, 2005	<u>1,500,000</u>	<u>150,000</u>
Issued and fully paid:		
At April 1, 2005	909,764	90,977
Bonus issue of share (<i>Note</i>)	<u>90,976</u>	<u>9,097</u>
At September 30, 2005	<u>1,000,740</u>	<u>100,074</u>

Note: Pursuant to the annual general meeting held on August 1, 2005, a bonus issue of shares on the basis of one share for every ten shares held was approved. 90,976,000 bonus shares were issued and the amount HK\$9,097,000 was capitalized from the Company's share premium account.

The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

12. CAPITAL COMMITMENT

	September 30, 2005 HK\$'000 (unaudited)	March 31, 2005 HK\$'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>2,589</u>	<u>3,568</u>

13. RELATED PARTY TRANSACTIONS

(a) Transactions with related parties

During the period ended September 30, 2005, Messrs. Yuen & Partners received professional fees of HK\$82,000 (six months ended September 30, 2004: HK\$217,000) for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, the Chairman of Audit Committee and an independent non-executive director of Man Sang Holdings, Inc., an intermediate holding company of the Company, is a partner of Yuen & Partners.

During the period ended September 30, 2005, the Group sold jewellery products amounting to HK\$293,000 (six months ended September 30, 2004: HK\$73,000) to China South International Industrial Materials City (Shenzhen) Co., Ltd. ("CSII"), a company in which Messrs. Cheng Chung Hing and Cheng Tai Po, the directors of the Company, have beneficial interests.

In addition, during the period ended September 30, 2005, a motor vehicle was disposed to CSII at net book value of HK\$914,000 and rental charges paid to CSII during the period amounting to HK\$38,000 (six months ended September 30, 2004: HK\$Nil).

During the period ended September 30, 2005, a reimbursement amounting to HK\$98,000 (six months ended September 30, 2004: HK\$84,000) was received from CSII for the salaries of staff who have provided services to CSII during the period.

The above transactions were carried out based on terms agreed by the relevant parties to the transactions.

(b) Compensation of key management personnel of the Group

	For the six months ended September 30,	
	2005 HK\$'000 (unaudited)	2004 HK\$'000 (unaudited)
Short-term employment benefits	4,782	4,829
Post-employment benefits	<u>32</u>	<u>36</u>
Total compensation paid to key management personnel	<u>4,814</u>	<u>4,865</u>

Save as disclosed in the financial statements, there were no significant related party transactions.

(ii) Three-year summary of financial information

Set out below are the audited consolidated income statements for the years ended March 31, 2005, 2004 and 2003 and the audited consolidated balance sheets at March 31, 2005, 2004 and 2003, as extracted from the published audited financial statements of the Group for each of the three years ended March 31, 2005.

CONSOLIDATED INCOME STATEMENTS

For the years ended March 31, 2005

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000 (as restated)
Turnover	412,262	382,123	323,082
Cost of sales	<u>(295,014)</u>	<u>(277,976)</u>	<u>(233,160)</u>
Gross profit	117,248	104,147	89,922
Investment income	1,213	1,664	982
Other operating income	6,029	8,130	11,568
Selling expenses	(7,647)	(7,409)	(6,635)
Administrative expenses	(75,038)	(72,870)	(57,921)
Revaluation increase (decrease) on leasehold land and buildings	5,392	5,823	(1,390)
Revaluation increase (decrease) on investment properties	–	855	(3,025)
Net unrealized gain (loss) on listed other investments	646	2,752	(3,606)
Gain on disposal of an investment property	33,388	–	–
Impairment loss on investment securities	(856)	(1,730)	–
Impairment loss on property, plant and equipment	<u>(2,617)</u>	<u>–</u>	<u>–</u>
Profit from operations	77,758	41,362	29,895
Loss on disposal of subsidiaries	–	–	(438)
Finance costs	(100)	(380)	(1,629)
Share of results of an associate	<u>–</u>	<u>–</u>	<u>(60)</u>
Profit before taxation	77,658	40,982	27,768
Taxation	<u>(6,145)</u>	<u>(3,802)</u>	<u>(3,527)</u>
Profit before minority interests	71,513	37,180	24,241
Minority interests	<u>–</u>	<u>–</u>	<u>323</u>
Net profit for the year	<u>71,513</u>	<u>37,180</u>	<u>24,564</u>
Earnings per share			
Basic	<u>7.86 cents</u>	<u>4.09 cents</u>	<u>2.97 cents</u>

CONSOLIDATED BALANCE SHEETS

At March 31, 2005

	2005 HK\$'000	2004 HK\$'000	2003 HK\$'000 (as restated)
Non-current assets			
Investment properties	77,650	153,760	112,400
Property, plant and equipment	143,545	110,699	58,831
Investment securities	–	856	2,586
Deferred tax assets	3,528	3,649	2,858
	<u>224,723</u>	<u>268,964</u>	<u>176,675</u>
Current assets			
Inventories	82,705	115,297	134,210
Trade and other receivables	54,629	79,626	86,332
Other investments	8,422	7,776	9,978
Bank balances and cash	229,350	90,451	75,638
	<u>375,106</u>	<u>293,150</u>	<u>306,158</u>
Current liabilities			
Trade and other payables	30,555	38,296	21,753
Taxation	1,661	1,560	2,224
Secured bank borrowings, current portion	–	5,575	5,575
	<u>32,216</u>	<u>45,431</u>	<u>29,552</u>
Net current assets	<u>342,890</u>	<u>247,719</u>	<u>276,606</u>
	<u>567,613</u>	<u>516,683</u>	<u>453,281</u>
Capital and reserves			
Share capital	90,977	82,706	75,187
Reserves	458,008	406,724	333,760
	<u>548,985</u>	<u>489,430</u>	<u>408,947</u>
Non-current liabilities			
Secured bank borrowings, non-current portion	–	6,016	16,435
Amount due to immediate holding company	2,245	6,000	13,074
Deferred tax liabilities	16,383	15,237	14,825
	<u>18,628</u>	<u>27,253</u>	<u>44,334</u>
	<u>567,613</u>	<u>516,683</u>	<u>453,281</u>

(iii) Audited financial statements for the year ended March 31, 2005

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statements and notes to the financial statements, as extracted from the annual report of the Group for the year ended March 31, 2005.

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2005

	<i>Note</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Turnover	4	412,262	382,123
Cost of sales		<u>(295,014)</u>	<u>(277,976)</u>
Gross profit		117,248	104,147
Investment income	6	1,213	1,664
Other operating income		6,029	8,130
Selling expenses		(7,647)	(7,409)
Administrative expenses		(75,038)	(72,870)
Revaluation increase on leasehold land and buildings		5,392	5,823
Revaluation increase on investment properties		–	855
Net unrealized gain on listed other investments		646	2,752
Gain on disposal of an investment property		33,388	–
Impairment loss on investment securities		(856)	(1,730)
Impairment loss on property, plant and equipment		<u>(2,617)</u>	<u>–</u>
Profit from operations	7	77,758	41,362
Finance costs	9	<u>(100)</u>	<u>(380)</u>
Profit before taxation		77,658	40,982
Taxation	10	<u>(6,145)</u>	<u>(3,802)</u>
Net profit for the year		<u><u>71,513</u></u>	<u><u>37,180</u></u>
Earnings per share			
Basic	11	<u><u>7.86 cents</u></u>	<u><u>4.09 cents</u></u>

CONSOLIDATED BALANCE SHEET

At March 31, 2005

	<i>Note</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current assets			
Investment properties	12	77,650	153,760
Property, plant and equipment	13	143,545	110,699
Investment securities	15	–	856
Deferred tax assets	16	3,528	3,649
		<u>224,723</u>	<u>268,964</u>
Current assets			
Inventories	17	82,705	115,297
Trade and other receivables	18	54,629	79,626
Other investments	19	8,422	7,776
Bank balances and cash		229,350	90,451
		<u>375,106</u>	<u>293,150</u>
Current liabilities			
Trade and other payables	20	30,555	38,296
Taxation		1,661	1,560
Secured bank borrowings, current portion	21	–	5,575
		<u>32,216</u>	<u>45,431</u>
Net current assets		<u>342,890</u>	<u>247,719</u>
		<u>567,613</u>	<u>516,683</u>
Capital and reserves			
Share capital	22	90,977	82,706
Reserves		458,008	406,724
		<u>548,985</u>	<u>489,430</u>
Non-current liabilities			
Secured bank borrowings, non-current portion	21	–	6,016
Amount due to immediate holding company	25	2,245	6,000
Deferred tax liabilities	16	16,383	15,237
		<u>18,628</u>	<u>27,253</u>
		<u>567,613</u>	<u>516,683</u>

BALANCE SHEET*At March 31, 2005*

	<i>Note</i>	2005 <i>HK\$'000</i>	2004 <i>HK\$'000</i>
Non-current asset			
Interests in subsidiaries	14	342,322	338,824
Current assets			
Other receivables		226	236
Other investments	19	8,422	7,776
Bank balances and cash		7,658	10,852
		16,306	18,864
Current liability			
Other payables		240	230
Net current assets			
		16,066	18,634
		358,388	357,458
Capital and reserves			
Share capital	22	90,977	82,706
Reserves	24	267,411	274,752
		358,388	357,458
		358,388	357,458

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2005

	Share capital HK\$'000	Share premium HK\$'000	Other non- distributable reserve HK\$'000	Merger reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
The Group									
Balance at April 1, 2003	75,187	75,728	2,001	(200)	-	3,659	4,488	248,084	408,947
Revaluation increase on investment properties	-	-	-	-	37,473	-	-	-	37,473
Revaluation increase on leasehold land and buildings	-	-	-	-	-	4,682	-	-	4,682
Deferred tax liabilities arising on revaluation of properties	-	-	-	-	(1,343)	(56)	-	-	(1,399)
Reversal of deferred tax liabilities on demolition of investment properties	-	-	-	-	1,228	-	-	-	1,228
Exchange differences arising from translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	54	-	54
Net gain not recognized in the income statement	-	-	-	-	37,358	4,626	54	-	42,038
Capitalization on bonus issue of shares	7,519	(7,519)	-	-	-	-	-	-	-
Release on demolition of investment properties	-	-	-	-	(3,009)	-	-	-	(3,009)
Release on disposal of investment properties	-	-	-	-	4,274	-	-	-	4,274
Release on depreciation of leasehold land and buildings	-	-	-	-	-	(211)	-	211	-
Net profit for the year	-	-	-	-	-	-	-	37,180	37,180
Balance at March 31, 2004	<u>82,706</u>	<u>68,209</u>	<u>2,001</u>	<u>(200)</u>	<u>38,623</u>	<u>8,074</u>	<u>4,542</u>	<u>285,475</u>	<u>489,430</u>
The Group									
Balance at April 1, 2004	82,706	68,209	2,001	(200)	38,623	8,074	4,542	285,475	489,430
Revaluation increase on investment properties	-	-	-	-	3,146	-	-	-	3,146
Revaluation increase on leasehold land and buildings	-	-	-	-	-	19,147	-	-	19,147
Deferred tax assets (liabilities) arising on revaluation of properties	-	-	-	-	1,373	(2,267)	-	-	(894)
Exchange differences arising from translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	21	-	21
Net gain not recognized in the income statement	-	-	-	-	4,519	16,880	21	-	21,420
Capitalization on bonus issue of shares	8,271	(8,271)	-	-	-	-	-	-	-
Release on disposal of an investment property	-	-	-	-	(33,378)	-	-	-	(33,378)
Release on depreciation of leasehold land and buildings	-	-	-	-	-	(347)	-	347	-
Net profit for the year	-	-	-	-	-	-	-	71,513	71,513
Balance at March 31, 2005	<u>90,977</u>	<u>59,938</u>	<u>2,001</u>	<u>(200)</u>	<u>9,764</u>	<u>24,607</u>	<u>4,563</u>	<u>357,335</u>	<u>548,985</u>

Other non-distributable reserve was arising from the repurchase of shares by subsidiaries under the corporate reorganization in 1997.

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 reorganization in 1997.

The Group's accumulated profits included an amount of HK\$9,852,000 (2004: HK\$9,852,000) reserved by the subsidiaries in the People's Republic of China (the "PRC") in accordance with the relevant PRC regulations, this reserve is only distributable in the event of liquidation of these PRC subsidiaries.

CONSOLIDATED CASH FLOW STATEMENT*For the year ended March 31, 2005*

	2005 HK\$'000	2004 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	77,658	40,982
Adjustments for:		
Interest income	(978)	(245)
Interest expenses	100	380
Depreciation and amortization	6,618	7,366
Impairment loss on property, plant and equipment	2,617	–
Revaluation increase on investment properties	–	(855)
Revaluation increase on leasehold land and buildings	(5,392)	(5,823)
(Gain) Loss on disposal of investment properties	(33,388)	2,598
Loss on demolition of investment properties	–	2,421
(Gain) Loss on disposal of property, plant and equipment	(136)	426
Impairment loss on investment securities	856	1,730
Net unrealized gain on other investments	(646)	(2,752)
Gain on disposal of listed other investments	–	(991)
Dividends received	(235)	(428)
Allowance for bad and doubtful debts	9,057	9,530
	<hr/>	<hr/>
Operating cash flows before movements in working capital	56,131	54,339
Decrease in inventories	32,602	19,077
Decrease (Increase) in trade and other receivables	8,730	(2,382)
(Decrease) Increase in trade and other payables	(586)	14,598
	<hr/>	<hr/>
Cash generated from operations	96,877	85,632
Hong Kong Profits Tax paid	(5,538)	(4,514)
Overseas tax paid	(134)	(502)
Interest paid	(100)	(380)
	<hr/>	<hr/>
Net cash from operating activities	91,105	80,236
	<hr/>	<hr/>

	<i>Note</i>	2005 HK\$'000	2004 HK\$'000
INVESTING ACTIVITIES			
Acquisition of an investment property		–	(38,222)
Purchases of property, plant and equipment		(10,009)	(23,058)
Purchases of other investments		–	(27)
Proceeds from disposal of other investments		–	5,972
Proceeds from disposal of an investment property		71,610	5,196
Proceeds from disposal of property, plant and equipment		320	1,063
Dividends received		235	428
Interest received		978	245
Acquisition of a business unit	26	–	373
Net cash from (used in) investing activities		<u>63,134</u>	<u>(48,030)</u>
FINANCING ACTIVITIES			
Repayment of bank loans		(11,591)	(10,419)
Repayment of advance from immediate holding company		(3,755)	(7,074)
Net cash used in financing activities		<u>(15,346)</u>	<u>(17,493)</u>
Net increase in cash and cash equivalents		138,893	14,713
Cash and cash equivalents at beginning of year		90,451	75,638
Effect of foreign exchange rate changes		6	100
Cash and cash equivalents at end of year		<u><u>229,350</u></u>	<u><u>90,451</u></u>
Analysis of the balances of cash and cash equivalents, represented by bank balances and cash		<u><u>229,350</u></u>	<u><u>90,451</u></u>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2005

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 jewelry products.

2. STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations ("SSAPs")) issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended March 31, 2005. The Group has commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and certain investment in securities. 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 are eliminated on consolidation.

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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 revaluation increase or decrease 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 revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

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

Property, plant and equipment

Property, plant and equipment are stated at cost or valuation less accumulated depreciation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the other property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the other property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account of their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 50 years
Leasehold improvements	25% – 33%
Plant and machinery	20% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

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

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 recognized in the income statement.

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

Investments in securities

Investments in securities are recognized 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 unrealized gains and losses included in net profit or loss for the period.

Impairment loss

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Revenue recognition

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

Service income is recognized when services are provided.

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

Rental income, including rental invoiced in advance, from properties under operating leases, is recognized on a straight-line basis over the term of the relevant lease.

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

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recognized as expense and revenue on the straight-line basis over the lease terms.

Related parties

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as an expense as they fall due.

4. 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.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS**Business segments**

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

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

Segment information about these businesses is presented below:

Income Statement (For the year ended March 31, 2005)

	Pearls <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue			
External sales or rentals	412,262	4,646	416,908
Result			
Segment results	50,531	28,644	79,175
Unallocated other operating income			3,107
Unallocated corporate expenses			(4,524)
Profit from operations			77,758
Finance costs			(100)
Profit before taxation			77,658
Taxation			(6,145)
Net profit for the year			<u>71,513</u>

Balance Sheet (At March 31, 2005)

	Pearls HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
Assets			
Segment assets	447,857	92,738	540,595
Unallocated corporate assets			59,234
Consolidated total assets			<u>599,829</u>
Liabilities			
Segment liabilities	28,217	1,948	30,165
Unallocated corporate liabilities			20,679
Consolidated total liabilities			<u>50,844</u>

Other information (For the year ended March 31, 2005)

	Pearls HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Capital additions	8,536	1,473	–	10,009
Depreciation and amortization	5,819	–	799	6,618
Impairment loss on investment securities	–	–	856	856
Allowance for bad and doubtful debts	8,210	847	–	9,057
Gain on disposal of an investment property	–	33,388	–	33,388
Revaluation increase on leasehold land and buildings	–	–	5,392	5,392
Impairment loss on property, plant and equipment	2,617	–	–	2,617
Net unrealized gain on listed other investments	–	–	646	646

Income Statement (For the year ended March 31, 2004)

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

Balance Sheet (At March 31, 2004)

	Pearls HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
Assets			
Segment assets	264,979	160,920	425,899
Unallocated corporate assets			136,215
Consolidated total assets			<u>562,114</u>
Liabilities			
Segment liabilities	27,954	10,075	38,029
Unallocated corporate liabilities			34,655
Consolidated total liabilities			<u>72,684</u>

Other information (For the year ended March 31, 2004)

	Pearls HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Capital additions	24,078	38,222	–	62,300
Depreciation and amortization	6,703	–	663	7,366
Impairment loss on investment securities	–	–	1,730	1,730
Allowance for bad and doubtful debts	9,530	–	–	9,530
Loss on disposal of investment properties	–	2,598	–	2,598
Loss on demolition of investment properties	–	2,421	–	2,421
Revaluation increase on leasehold land and buildings	–	–	5,823	5,823
Revaluation increase on investment properties	–	855	–	855
Net unrealized gain on listed other investments	–	–	2,752	2,752

Geographical segments

The Group's operations are located in Hong Kong and the PRC.

The following table provides an analysis of the Group's revenue and profit from operations by geographical market, irrespective of the origin of the goods or rentals:

	Revenue		Profit from operations	
	Year ended March 31, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000
Hong Kong	46,700	52,762	39,681	5,264
North America	145,099	117,524	17,061	11,833
Europe	122,674	112,214	12,013	9,210
Japan	46,145	37,489	6,930	3,916
Other Asian countries	41,016	51,864	1,644	2,936
Others	15,274	16,490	1,846	1,257
	<u>416,908</u>	<u>388,343</u>	79,175	34,416
Unallocated other operating income			3,107	10,239
Unallocated corporate expenses			<u>(4,524)</u>	<u>(3,293)</u>
Profit from operations			<u>77,758</u>	<u>41,362</u>

The following is an analysis of the carrying amount of segment assets and capital additions, analyzed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	Year ended March 31, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000
Hong Kong	466,016	425,194	3,343	42,531
PRC	130,285	133,271	6,666	19,769
	<u>596,301</u>	<u>558,465</u>	<u>10,009</u>	<u>62,300</u>
6. INVESTMENT INCOME			2005	2004
			HK\$'000	HK\$'000
Interest income			978	245
Dividends received from listed other investments			235	428
Gain on disposal of listed other investments			–	991
			<u>1,213</u>	<u>1,664</u>
7. PROFIT FROM OPERATIONS			2005	2004
			HK\$'000	HK\$'000
Profit from operations has been arrived at after charging/(crediting):				
Allowance for bad and doubtful debts			9,057	9,530
Auditors' remuneration:				
Current year			943	946
Underprovision in previous years			–	3
Costs of inventories			295,014	277,976
Depreciation and amortization			6,618	7,366
(Gain) loss on disposal of property, plant and equipment			(136)	426
Loss on disposal of investment properties			–	2,598
Loss on demolition of investment properties			–	2,421
Staff costs, including directors emoluments			47,502	40,850
Rental income from investment properties under operating leases (net of outgoings of HK\$124,000 (2004: HK\$131,000))			<u>(4,522)</u>	<u>(6,089)</u>
8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS				
Particulars of the emoluments of the directors and the five highest paid individuals are as follows:				
(a) Directors' emoluments			2005	2004
			HK\$'000	HK\$'000
Fees:				
Executive			–	–
Independent non-executive			<u>356</u>	<u>331</u>
			<u>356</u>	<u>331</u>
Other emoluments:				
Executive				
Salaries and other allowances			7,500	7,164
Retirement benefits contributions			36	36
Performance related incentive payment			1,500	800
Approximate rateable value of a property for director's accommodation			823	941
Independent non-executive			–	–
			<u>9,859</u>	<u>8,941</u>
			<u>10,215</u>	<u>9,272</u>

The directors' emoluments were within the following bands:

	No. of directors	
	2005	2004
Up to HK\$1,000,000	5	2
HK\$1,500,001 to HK\$2,000,000	–	1
HK\$2,500,001 to HK\$3,000,000	–	1
HK\$3,000,001 to HK\$3,500,000	2	–
HK\$3,500,001 to HK\$4,000,000	1	1
	<u> </u>	<u> </u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2004: two) individuals are as follows:

	2005	2004
	HK\$'000	HK\$'000
Salaries and other allowances	1,982	2,165
Retirement benefits contributions	24	21
	<u> </u>	<u> </u>
	<u>2,006</u>	<u>2,186</u>

Their emoluments are within the following bands:

	No. of employees	
	2005	2004
Up to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1
	<u> </u>	<u> </u>

During the years ended March 31, 2005 and 2004, no emoluments were paid by the Group to the five highest paid individuals, including directors, as in inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended March 31, 2005 and 2004, no directors waived any emoluments.

9. FINANCE COSTS

	2005	2004
	HK\$'000	HK\$'000
Interest on bank borrowings wholly repayable within five years	<u>100</u>	<u>380</u>

10. TAXATION

	2005	2004
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	6,531	4,990
PRC	<u>–</u>	<u>271</u>
	<u>6,531</u>	<u>5,261</u>
(Over) Underprovision in prior year:		
Hong Kong	(277)	283
PRC	<u>(482)</u>	<u>(1,192)</u>
	<u>(759)</u>	<u>(909)</u>
Deferred tax:		
Current year	373	(296)
Attributable to a change in tax rate	<u>–</u>	<u>(254)</u>
	<u>373</u>	<u>(550)</u>
	<u>6,145</u>	<u>3,802</u>

Hong Kong Profits Tax is calculated at a rate of 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

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

The charge for the year can be reconciled to the profit per the income statement as follows:

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	77,658	40,982
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	13,590	7,172
Tax effect of expenses that are not deductible in determining taxable profit	716	288
Tax effect of income that is not taxable in determining taxable profit	(6,610)	(1,579)
Tax effect of utilization of tax loss not previously recognized	(923)	(1,190)
Tax effect of recognition of temporary difference not previously recognized	(975)	–
Tax effect of additional tax loss not recognized	1,115	409
Effect of different tax rates of subsidiaries operating in other jurisdictions	275	(135)
Overprovision in respect of prior year	(759)	(909)
Increase in the opening deferred tax asset resulting from an increase in tax rate	–	(254)
Others	(284)	–
Tax expense for the year	<u>6,145</u>	<u>3,802</u>

Details of the deferred taxation are set out in note 16 to the financial statements.

11. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the year of HK\$71,513,000 (2004: HK\$37,180,000) and on 909,764,000 (2004: 909,764,000) shares in issue during the year.

No diluted earnings per share have been presented for both years as there are no dilutive potential ordinary shares in issue for the two years ended March 31, 2005 and 2004.

The number of ordinary shares for both years for the purpose of basic earnings per shares has been adjusted for the bonus issue approved pursuant to the annual general meeting held on August 4, 2004.

The adjustment to comparative earnings per share, arising from the bonus issue is as follows:

	HK CENTS
Reported figure before adjustments	4.50
Adjustment arising from the bonus issue	(0.41)
Restated figure	<u>4.09</u>

12. INVESTMENT PROPERTIES

	HK\$'000
The Group	
At April 1, 2004	153,760
Disposal during the year	(71,600)
Transferred to property, plant and equipment	(7,656)
Revaluation increase	3,146
At March 31, 2005	<u>77,650</u>

The Group's investment properties at March 31, 2005 were revalued by BMI Appraisals Limited, an independent firm of professional property valuers, on an open market value basis, at HK\$77,650,000. The revaluation increase arising from revaluation of the investment properties amounted to HK\$3,146,000 has been credited 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:

	2005 HK\$'000	2004 HK\$'000
Land and buildings situated in Hong Kong and held under long leases	29,050	94,960
Land and buildings situated in the PRC and held under medium-term land use rights	48,600	58,800
	<u>77,650</u>	<u>153,760</u>

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
The Group							
Cost or valuation							
At April 1, 2004	78,100	21,926	14,273	12,707	11,360	4,577	142,943
Currency realignment	5	(81)	111	3	(8)	1	31
Additions	-	4,456	111	1,457	1,736	2,249	10,009
Transferred from investment properties	7,656	-	-	-	-	-	7,656
Disposals	-	-	(838)	(176)	(390)	(1,771)	(3,175)
Transfer upon completion	9,577	(11,213)	-	1,573	63	-	-
Adjustment on revaluation	22,499	-	-	-	-	-	22,499
At March 31, 2005	<u>117,837</u>	<u>15,088</u>	<u>13,657</u>	<u>15,564</u>	<u>12,761</u>	<u>5,056</u>	<u>179,963</u>
Comprising:							
At cost	-	15,088	13,657	15,564	12,761	5,056	62,126
At valuation - 2005	117,837	-	-	-	-	-	117,837
	<u>117,837</u>	<u>15,088</u>	<u>13,657</u>	<u>15,564</u>	<u>12,761</u>	<u>5,056</u>	<u>179,963</u>
Depreciation and amortization							
At April 1, 2004	-	-	12,011	7,705	8,412	4,116	32,244
Currency realignment	-	-	11	(28)	(14)	1	(30)
Provided for the year	2,040	-	932	1,656	1,413	577	6,618
Eliminated on disposals	-	-	(838)	(176)	(382)	(1,595)	(2,991)
Impairment loss	-	-	-	2,617	-	-	2,617
Eliminated on revaluation	(2,040)	-	-	-	-	-	(2,040)
At March 31, 2005	<u>-</u>	<u>-</u>	<u>12,116</u>	<u>11,774</u>	<u>9,429</u>	<u>3,099</u>	<u>36,418</u>
Net book value							
At March 31, 2005	<u>117,837</u>	<u>15,088</u>	<u>1,541</u>	<u>3,790</u>	<u>3,332</u>	<u>1,957</u>	<u>143,545</u>
At March 31, 2004	<u>78,100</u>	<u>21,926</u>	<u>2,262</u>	<u>5,002</u>	<u>2,948</u>	<u>461</u>	<u>110,699</u>

The net book value of leasehold land and buildings shown above comprises:

	2005 HK\$'000	2004 HK\$'000
Land and buildings situated in Hong Kong and held under medium-term leases	88,400	64,800
Land and buildings situated in the PRC and held under medium-term land use rights	29,437	13,300
	<u>117,837</u>	<u>78,100</u>

The Group's leasehold land and buildings at March 31, 2005 were revalued by BMI Appraisals Limited, which is an independent firm of professional property valuers, on an open market value basis, at HK\$117,837,000. The revaluation increase arising from revaluation of the leasehold land and buildings amounted to HK\$24,539,000, of which HK\$5,392,000 has been credited to the income statement and HK\$19,147,000 has been credited to the other property revaluation reserve.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation and impairment losses of HK\$85,101,000 (2004: HK\$74,780,000).

14. INTERESTS IN SUBSIDIARIES

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	206,664	206,664
Amounts due from subsidiaries	135,658	132,160
	<u>342,322</u>	<u>338,824</u>

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 reorganization in 1997.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

None of the subsidiaries had issued any debt securities at the end of the year.

Details of the Company's subsidiaries at March 31, 2005 are set out in note 34 to the financial statements.

15. INVESTMENT SECURITIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Unlisted investments in the PRC, at cost	5,586	5,586
Impairment loss	(5,586)	(4,730)
	<u>–</u>	<u>856</u>

At the balance sheet date, the directors reviewed the carrying value of the investment securities by reference to the recoverable value of the underlying assets and liabilities and determined that the investment securities have been fully impaired.

Unlisted investments include an investment of HK\$4,730,000 in a 19.5% equity interest in Shantou City Shaohe Pearl Seawater Cultured Co., Ltd. (汕頭市紹河珍珠海水養殖有限公司), a company registered in the PRC which is engaged in the cultivation of saltwater pearls, which has been fully impaired during the year ended March 31, 2004.

16. DEFERRED TAXATION

The followings are the major deferred tax liabilities (assets) recognized by the Group and movements thereon during the current year and prior reporting periods.

	Revaluation of properties HK\$'000	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Unrealized profit in inventories HK\$'000	Total HK\$'000
The Group					
At April 1, 2003	14,678	935	(1,146)	(2,500)	11,967
Charge (credit) to income for the year	–	436	56	(788)	(296)
Charge to equity for the year	171	–	–	–	171
Effect of change in tax rate charge (credit) to income statement	–	88	(108)	(234)	(254)
	<u>14,849</u>	<u>1,459</u>	<u>(1,198)</u>	<u>(3,522)</u>	<u>11,588</u>
At March 31, 2004	14,849	1,459	(1,198)	(3,522)	11,588
Charge (credit) to income for the year	–	34	1,160	(821)	373
Charge to equity for the year	894	–	–	–	894
	<u>15,743</u>	<u>1,493</u>	<u>(38)</u>	<u>(4,343)</u>	<u>12,855</u>
At March 31, 2005	15,743	1,493	(38)	(4,343)	12,855

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred taxation for financial reporting purposes:

	2005 HK\$'000	2004 HK\$'000
Deferred tax liabilities	16,383	15,237
Deferred tax assets	(3,528)	(3,649)
	<u>12,855</u>	<u>11,588</u>

At March 31, 2005, the Group has unused tax losses of HK\$24,502,000 (2004: HK\$28,685,000) available for offset against future profits. A deferred tax asset has been recognized in respect of HK\$216,000 (2004: HK\$6,848,000) of such losses. No deferred tax asset has been recognized in respect to the remaining HK\$24,286,000 (2004: HK\$21,837,000) due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At March 31, 2005, the Group also has deductible temporary differences of HK\$28,019,000 (2004: HK\$27,481,000) attributable to unrealized profit in inventories. A deferred tax asset has been recognized in respect of HK\$25,501,000 (2004: HK\$23,481,000) of such deductible temporary differences. No deferred tax asset has been recognized in respect of the remaining HK\$2,518,000 (2004: HK\$4,000,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

The Company

At March 31, 2005, the Company has unused tax losses of HK\$7,176,000 (2004: HK\$7,885,000) available for offset against future profits. No deferred tax asset has been recognized due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

17. INVENTORIES

	The Group	
	2005 HK\$'000	2004 HK\$'000
Raw materials	18,037	14,676
Work in progress	14,520	19,659
Finished goods	50,148	80,962
	<u>82,705</u>	<u>115,297</u>

The amount of inventories, included in above, carried at net realizable value is HK\$60,778,000 (2004: HK\$67,021,000).

18. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables of the Group are trade receivables of HK\$47,450,000 (2004: HK\$62,993,000) and their aged analysis after credit period is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
0 – 60 days	46,595	62,735
61 – 120 days	855	258
	<u>47,450</u>	<u>62,993</u>

19. OTHER INVESTMENTS

	The Group and the Company	
	2005 HK\$'000	2004 HK\$'000
Listed equity investments in Hong Kong, at market value	8,422	7,776

20. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$8,588,000 (2004: HK\$13,234,000) and their aged analysis after credit period is as follows:

	The Group	
	2005 HK\$'000	2004 HK\$'000
0 – 60 days	8,270	12,980
61 – 120 days	315	193
> 120 days	3	61
	<u>8,588</u>	<u>13,234</u>

21. SECURED BANK BORROWINGS

	The Group	
	2005 HK\$'000	2004 HK\$'000
The secured bank borrowings are repayable as follows:		
Within one year or on demand	–	5,575
More than one year, but not exceeding two years	–	4,975
More than two year, but not exceeding five years	–	1,041
	<u>–</u>	<u>11,591</u>
Less: Portion classified as current liabilities	–	(5,575)
	<u>–</u>	<u>6,016</u>
Non-current portion	–	6,016

All of the bank borrowings were fully repaid during the year.

22. SHARE CAPITAL

	Number of shares		Share capital	
	2005 '000	2004 '000	2005 HK\$'000	2004 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorized:	<u>1,500,000</u>	<u>1,500,000</u>	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:				
At beginning of the year	827,058	751,871	82,706	75,187
Bonus issue of share (Note)	<u>82,706</u>	<u>75,187</u>	<u>8,271</u>	<u>7,519</u>
At end of the year	<u>909,764</u>	<u>827,058</u>	<u>90,977</u>	<u>82,706</u>

Note: Pursuant to the annual general meeting held on August 4, 2004, a bonus issue of shares on the basis of one share for every ten shares held was approved. 82,706,000 bonus shares were issued under the bonus issue and the amount HK\$8,271,000 was capitalized from the Company's share premium account.

The bonus shares were credited as fully paid and rank pari passu with the then existing shares in all respects.

23. SHARE OPTION SCHEMES

- (a) The Company adopted a share option scheme on September 8, 1997 (the "1997 Scheme") for the primary purpose of providing the employees of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. Under the 1997 Scheme, the board of directors of the Company may grant options to full-time employees of the Group including executive directors, to subscribe for shares in the Company at a price determined by the board of directors being not less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options or the nominal value of the shares, whichever is the higher, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No employee shall be granted an option which, if exercised in full, would result in that employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under the 1997 Scheme.

The 1997 Scheme is valid and effective for a period of 10 years commencing September 8, 1997.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$10 for each grant of options. Options may be exercised at any time within a period of two years commencing on the expiry of six months after respective date of acceptance and expiring on the last day of the two-year period or the tenth anniversary of the date of adoption of the 1997 Scheme, whichever is the earlier.

All options under the 1997 Scheme lapsed during the year ended March 31, 2003. There is no movement or outstanding balance in the Company's share options granted under the 1997 Scheme during the two years ended March 31, 2005 and 2004.

- (b) Pursuant to the changes of the Rules Governing the Listing of Securities on the Stock Exchange in relation to share option schemes, on August 2, 2002, the Company adopted a new share option scheme (the "2002 Scheme") and terminated the 1997 Scheme. Upon termination of the 1997 Scheme, no further options will be granted thereunder but in all other respects, the provisions of the 1997 Scheme shall remain in force and all outstanding options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The purpose of the 2002 Scheme is to provide incentives to the eligible participants to contribute to the Group and to enable the Group to recruit high-caliber employees and attract resources that are valuable to the Group. Under the 2002 Scheme, the board of directors of the Company may grant options to any person being an employee, officer, agent, or consultant of the Group including executive or non-executive directors of the Company and its subsidiaries, to subscribe for shares in the Company at a price to be determined by the board of directors being at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant of the option, which must be a trading day; (b) the average closing price of the shares of the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and (c) the nominal value of the shares.

The total number of shares in respect of which the 2002 Scheme and any other share option schemes of the Group is not permitted to exceed 10% of the number of shares in issue at the date of adoption of the 2002 Scheme or such number of shares as result from a sub-division or consolidation of the number of shares at that date. Subject as provided in the 2002 Scheme, the Company may seek approval from its shareholders in general meeting to refresh this 10% limit, but the total number of shares which may be issued under the 2002 Scheme must not exceed 30% of the number of shares in issue from time to time.

No participant shall be granted an option which, if accepted and exercised in full, would result in the participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued and which may be issued upon exercise of all options granted and to be granted to him, together with all options granted and to be granted to him under any other share option schemes of the Company and/or any subsidiaries, within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options), would exceed 1% of the number of shares in issue as at the proposed date of grant.

The 2002 Scheme shall be valid and effective for a period of 10 years commencing August 2, 2002.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$1 for each grant of options. Subject as provided in the 2002 Scheme, options may be exercised at any time during the option period, which is to be notified by the board of directors to each grantee, commencing on the date of grant or such later date as the board of directors may decide and expiring on such date as the board of directors may determine, provided that such period is not to exceed ten years from the date of grant, and subject to any restrictions that may be imposed by the board of directors in its discretion.

Details of the principal terms of the 2002 Scheme are set out in the circular of the Company dated July 4, 2002.

No options have been granted under the 2002 Scheme since its adoption.

- (c) The stock option plan of Man Sang Holdings, Inc. ("MSH"), an intermediate holding company of the Company (the "MSH Option Plan") was adopted on October 17, 1996 for the primary purpose of providing incentives to employees, consultants and directors of MSH and its affiliates, including subsidiaries. The MSH Option Plan will remain effective until October 2006.

The maximum number of shares of common stock which may be issued or delivered and as to which awards may be granted under the MSH Option Plan was 1,000,000 shares, which was

subsequently revised to 2,000,000 shares, as adjusted by the antidilution provisions contained in the MSH Option Plan. The exercise price for a stock option must be at least equal to 100% (110% with respect to incentive stock options granted to participants holding ten percent or more of the outstanding common stock) of the fair market value of the common stock on the date of grant of such stock option for incentive stock options, which are available only to employees of the Company, and 85% of the fair market value of the common stock on the date of grant of such stock option for other stock options.

The duration of each option will be determined by the Compensation Committee, but no option will be exercisable more than ten years from the date of grant (or, with respect to incentive stock options granted to participants holding ten percent or more of the outstanding common stock not more than five years from the date of grant). Unless otherwise determined by the Compensation Committee and provided in the applicable option agreement, options will be exercisable within three months of any termination of employment, including termination due to disability, death or normal retirement (but no later than the expiration date of the option).

The following table discloses the movements in the stock options of MSH granted under the MSH Option Plan during the two years ended March 31, 2005 and 2004:

	Date of grant	Exercise price per share US\$	Outstanding at April 1, 2003 and March 31, 2004	Exercised during the year ended March 31, 2005	Outstanding at March 31, 2005
Directors	September 16, 1997	1.22	300,000	-	300,000
	March 26, 2003	1.10	250,000	-	250,000
			550,000	-	550,000
Other employees	September 16, 1997	1.22	150,000	(50,000)	100,000
			700,000	(50,000)	650,000

For stock options granted on September 16, 1997, the holders can subscribe for the shares of common stock at a subscription price of US\$1.22 per share. 50% of the granted stock options vested and became exercisable on September 16, 1998 and the remainder vested and became exercisable on September 16, 1999. The options expire on September 15, 2007. For stock options granted on March 26, 2003, the holders can subscribe for the shares of common stock at a subscription price of US\$1.10 per share, 50% of which vested and became exercisable on March 26, 2004, and the remainder vested and became exercisable on March 26, 2005. The options expire on March 25, 2013.

There was 50,000 (2004: NIL) stock options exercised by a grantee during the year ended March 31, 2005.

It is not practicable to allocate the director entitlements between their services to each of MSH and its affiliates.

24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
The Company				
Balance at April 1, 2003	75,728	206,459	(3,753)	278,434
Capitalization on bonus issue of shares	(7,519)	-	-	(7,519)
Net profit for the year	-	-	3,837	3,837
Balance at March 31, 2004	68,209	206,459	84	274,752
Balance at April 1, 2004	68,209	206,459	84	274,752
Capitalization on bonus issue of shares	(8,271)	-	-	(8,271)
Net profit for the year	-	-	930	930
Balance at March 31, 2005	59,938	206,459	1,014	267,411

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 reorganization in 1997.

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 realizable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

In the opinion of the Company's directors, the Company's net reserves available for distribution to shareholders at March 31, 2005 amounted to HK\$207,473,000 (2004: HK\$206,543,000), which represents the aggregate of contributed surplus of HK\$206,459,000 (2004: HK\$206,459,000) and accumulated profits of HK\$1,014,000 (2004: HK\$84,000).

25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount is unsecured and non-interest bearing and has no fixed terms of repayment. The immediate holding company agreed that the amount will not be repayable within twelve months from the balance sheet date and accordingly the amount is classified as non-current.

26. ACQUISITION OF A BUSINESS UNIT

During the year ended March 31, 2004, the Group acquired a business unit which is principally engaged in the manufacturing of jewelry products for a consideration of HK\$190,000.

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Net assets acquired		
Property, plant and equipment	–	1,020
Inventories	–	164
Trade and other receivables	–	578
Bank balances and cash	–	373
Trade and other payables	–	(1,945)
	<u>–</u>	<u>–</u>
Consideration	–	190
	<u>–</u>	<u>190</u>
<i>Satisfied by:</i>		
Offset against an receivable from the vendor	–	190
	<u>–</u>	<u>190</u>

Analysis of net inflow of cash and cash equivalents in connection with the acquisition:

	2005	2004
	HK\$'000	HK\$'000
Bank balances and cash acquired	<u>–</u>	<u>373</u>

27. 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	
	2005	2004
	HK\$'000	HK\$'000
Carrying amount of leasehold land and buildings	84,800	74,980
Carrying amount of investment properties	10,400	132,662
	<u>95,200</u>	<u>207,642</u>

28. CAPITAL COMMITMENT

	The Group	
	2005	2004
	HK\$'000	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<u>3,568</u>	<u>4,419</u>

The Company had no capital commitment at the balance sheet date.

29. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases in respect of land and buildings during the year were HK\$1,793,000 (2004: HK\$3,693,000).

At the balance sheet date, the Group had outstanding commitments for the future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	The Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating leases which expire:		
Within one year	1,773	448
In the second to fifth year inclusive	431	6
	<u>2,204</u>	<u>454</u>

Leases are negotiated for an average term of one to two years and rentals are fixed during the relevant lease period.

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

The Group as lessor

Property rental income earned during the year was HK\$4,646,000 (2004: HK\$6,220,000). Most of the investment properties held have committed tenants for the next one to three years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	The Group	
	2005	2004
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within one year	3,282	2,941
In the second to fifth year inclusive	3,659	3,577
Over five years	509	–
	<u>7,450</u>	<u>6,518</u>

The Company does not have any contracted tenants for operating lease rentals at the balance sheet date.

30. CONTINGENT LIABILITIES

At the balance sheet date, the Company had issued corporate guarantees to banks in respect of general banking facilities granted to its subsidiaries. The extent of facilities utilized by the subsidiaries at the balance sheet date amounted to HK\$NIL (2004: HK\$11,591,000).

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

31. LITIGATION

On December 2, 2003, Arcadia Jewellery Limited (“Arcadia”), a subsidiary of the Company, filed a lawsuit in Hong Kong against its former general manager and certain other parties (the “Defendants”) for breach of a business transfer agreement, an employment agreement and a consultancy agreement (“Case 1”). Arcadia is claiming against the Defendants for, inter alia, account and inquiry; repayment of monies of at least HK\$832,000; damages; interest; a declaration that the consultancy agreement is null and void and Arcadia is entitled to rescind the same; a declaration that Arcadia is entitled to exercise its right under clause 16 of the business transfer agreement (i.e. not to pay the balance of the purchase consideration of HK\$1,000,000); return of the purported consultancy fees or earnest money, the amount of which is to be assessed; costs and further or other relief.

On December 22, 2003, this former general manager filed a lawsuit in Hong Kong against Arcadia in respect of the aforesaid employment agreement for a monetary claim of approximately HK\$395,000 and also a declaration that the restraint of trade covenants under the aforesaid employment agreement are void and unenforceable. Afterwards, this former general manager agreed to transfer his monetary claim to the Labour Tribunal in Hong Kong and consolidate the rest of his case into Case 1. Although it is not possible to predict with certainty at the moment the outcome of these unresolved legal actions or

pending claim or the amount of possible loss or recovery, the directors do not believe that the resolution of these matters will have a material adverse effect on the Group's financial position or operating results.

32. RELATED PARTY TRANSACTIONS

During the year, Messrs. Yuen & Partners received professional fees of HK\$237,000 (2004: HK\$375,000) for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, an ex-independent non-executive director of the Company (resigned as a director during the year) and the Chairman of Audit Committee and an independent non-executive director of MSH, is a partner of Yuen & Partners.

During the year, the Group sold jewellery products amounting to HK\$636,000 (2004: HK\$298,000) to China South International Industrial Materials City (Shenzhen) Co., Ltd. ("CSII"), a company in which Messrs. Cheng Chung Hing and Cheng Tai Po have beneficial interests.

In addition, a reimbursement amounting to HK\$554,000 was received from CSII for the salaries of staff who have provided services to CSII during the year.

The above transactions were carried out based on terms agreed by the relevant parties to the transactions.

Save as disclosed in the financial statements, there were no significant related party transactions.

33. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute 8% of the average basic salary to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to income statement of HK\$981,000 (2004: HK\$820,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

34. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at March 31, 2005 are as follows:

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 by the Company	Principal activities
Arcadia Jewellery Limited	Hong Kong	Ordinary shares HK\$500,000	100%	Trading and manufacturing of jewelry products
Asean Gold Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$10,000	100%	Investment holding and subcontracting
Cyber Bizport Limited	Hong Kong	Ordinary shares HK\$10,000,000	100%	Investment holding
Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$6,000,000	100%	Purchasing and processing of pearls
Excel Assess Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Property investment
Hong Kong Man Sang Investments Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Property investment

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 by the Company	Principal activities
M. S. Collections Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%	Investment holding
Man Hing Industry Development (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$23,600,000	100%	Purchasing and processing of pearls and assembling of pearl jewelry and property investment
Man Sang Development Company Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Investment and property holding
Man Sang Enterprise Ltd.	British Virgin Islands/ Hong Kong	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/ Hong Kong	Ordinary shares US\$100	100%	Investment holding
Peking Pearls Company Limited	Hong Kong	Ordinary shares HK\$2	100%	Inactive
Swift Millions Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Property investment
4376zone.com Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Trading of pearls and e-commerce trading of jewelry

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 meeting of the company or to participate in any distribution on winding up.

Note 3: Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd. and Man Hing Industry Development (Shenzhen) Co., Ltd. were registered in the PRC as foreign wholly-owned investment enterprises.

(iv) Audited financial statements for the year ended March 31, 2004

Set out below is the audited consolidated income statement, consolidated balance sheet, balance sheet, consolidated statement of changes in equity, consolidated cash flow statements and notes to the financial statements, as extracted from the annual report of the Group for the year ended March 31, 2004.

CONSOLIDATED INCOME STATEMENT

For the year ended March 31, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (as restated)
Turnover		382,123	323,082
Cost of sales		<u>(277,976)</u>	<u>(233,160)</u>
Gross profit		104,147	89,922
Investment income	6	1,664	982
Other operating income		8,130	11,568
Selling expenses		(7,409)	(6,635)
Administrative expenses		(72,870)	(57,921)
Revaluation increase (decrease) on leasehold land and buildings		5,823	(1,390)
Revaluation increase (decrease) on investment properties		855	(3,025)
Net unrealized gain (loss) on listed other investments		2,752	(3,606)
Impairment loss on investment securities		<u>(1,730)</u>	<u>–</u>
Profit from operations	7	41,362	29,895
Loss on disposal of subsidiaries		–	(438)
Finance costs	9	(380)	(1,629)
Share of results of an associate		<u>–</u>	<u>(60)</u>
Profit before taxation		40,982	27,768
Taxation	10	<u>(3,802)</u>	<u>(3,527)</u>
Profit before minority interests		37,180	24,241
Minority interests		<u>–</u>	<u>323</u>
Net profit for the year		<u><u>37,180</u></u>	<u><u>24,564</u></u>
Earnings per share			
Basic	11	<u><u>4.50 cents</u></u>	<u><u>2.97 cents</u></u>

CONSOLIDATED BALANCE SHEET

At March 31, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i> (as restated)
Non-current assets			
Investment properties	12	153,760	112,400
Property, plant and equipment	13	110,699	58,831
Investment securities	15	856	2,586
Deferred tax assets	16	3,649	2,858
		<u>268,964</u>	<u>176,675</u>
Current assets			
Inventories	17	115,297	134,210
Trade and other receivables	18	79,626	86,332
Other investments	19	7,776	9,978
Bank balances and cash		90,451	75,638
		<u>293,150</u>	<u>306,158</u>
Current liabilities			
Trade and other payables	20	38,296	21,753
Taxation		1,560	2,224
Secured bank borrowings – due within one year	21	5,575	5,575
		<u>45,431</u>	<u>29,552</u>
Net current assets		<u>247,719</u>	<u>276,606</u>
		<u><u>516,683</u></u>	<u><u>453,281</u></u>
Capital and reserves			
Share capital	22	82,706	75,187
Reserves		406,724	333,760
		<u>489,430</u>	<u>408,947</u>
Non-current liabilities			
Secured bank borrowings – due after one year	21	6,016	16,435
Amount due to immediate holding company	25	6,000	13,074
Deferred tax liabilities	16	15,237	14,825
		<u>27,253</u>	<u>44,334</u>
		<u><u>516,683</u></u>	<u><u>453,281</u></u>

BALANCE SHEET

At March 31, 2004

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
Non-current asset			
Interests in subsidiaries	14	338,824	336,038
Current assets			
Other receivables		236	207
Other investments	19	7,776	9,978
Bank balances and cash		10,852	7,621
		18,864	17,806
Current liability			
Other payables		230	223
Net current assets		18,634	17,583
		357,458	353,621
Capital and reserves			
Share capital	22	82,706	75,187
Reserves	24	274,752	278,434
		357,458	353,621

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended March 31, 2004

	Share capital HK\$'000	Share premium HK\$'000	Other non- distributable reserve HK\$'000	Merger reserve HK\$'000	Investment property revaluation reserve HK\$'000	Other property revaluation reserve HK\$'000	Translation reserve HK\$'000	Accumulated profits HK\$'000	Total HK\$'000
THE GROUP									
Balance at April 1, 2002									
- as previously reported	75,187	75,728	2,001	(200)	16,047	4,031	3,543	221,733	398,070
- prior period adjustment (note 2)	-	-	-	-	(13,591)	(610)	-	1,710	(12,491)
- as restated	75,187	75,728	2,001	(200)	2,456	3,421	3,543	223,443	385,579
Revaluation decrease on investment properties	-	-	-	-	(2,075)	-	-	-	(2,075)
Revaluation increase on leasehold land and buildings	-	-	-	-	-	411	-	-	411
Deferred tax liabilities arising on revaluation of properties	-	-	-	-	(381)	(96)	-	-	(477)
Exchange differences arising from translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	945	-	945
Net losses not recognized in the income statement	-	-	-	-	(2,456)	315	945	-	(1,196)
Release on depreciation of leasehold land and buildings	-	-	-	-	-	(77)	-	77	-
Net profit for the year	-	-	-	-	-	-	-	24,564	24,564
Balance at April 1, 2003	75,187	75,728	2,001	(200)	-	3,659	4,488	248,084	408,947
Revaluation increase on investment properties	-	-	-	-	37,473	-	-	-	37,473
Revaluation increase on leasehold land and buildings	-	-	-	-	-	4,682	-	-	4,682
Deferred tax liabilities arising on revaluation of properties	-	-	-	-	(1,343)	(56)	-	-	(1,399)
Reversal of deferred tax liabilities on demolition of investment properties	-	-	-	-	1,228	-	-	-	1,228
Exchange differences arising from translation of financial statements of operations outside Hong Kong	-	-	-	-	-	-	54	-	54
Net gain not recognized in the income statement	-	-	-	-	37,358	4,626	54	-	42,038
Capitalization on bonus issue of shares	7,519	(7,519)	-	-	-	-	-	-	-
Release on demolition of investment properties	-	-	-	-	(3,009)	-	-	-	(3,009)
Release on disposal of investment properties	-	-	-	-	4,274	-	-	-	4,274
Release on depreciation of leasehold land and buildings	-	-	-	-	-	(211)	-	211	-
Net profit for the year	-	-	-	-	-	-	-	37,180	37,180
Balance at March 31, 2004	82,706	68,209	2,001	(200)	38,623	8,074	4,542	285,475	489,430

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.

CONSOLIDATED CASH FLOW STATEMENT*For the year ended March 31, 2004*

	2004 HK\$'000	2003 HK\$'000
OPERATING ACTIVITIES		
Profit before taxation	40,982	27,768
Adjustments for:		
Interest income	(245)	(620)
Interest expenses	380	1,629
Depreciation and amortisation	7,366	6,971
Revaluation (increase) decrease on investment properties	(855)	3,025
Revaluation (increase) decrease on leasehold land and buildings	(5,823)	1,390
Loss on disposal of investment properties	2,598	–
Loss on demolition of investment properties	2,421	–
Loss on disposal of property, plant and equipment	426	603
Impairment loss on investment securities	1,730	–
Net unrealized (gain) loss on other investments	(2,752)	3,606
Gain on disposal of listed other investments	(991)	–
Dividends received	(428)	(362)
Allowance for bad and doubtful debts	9,530	440
Loss on disposal of subsidiaries	–	438
Share of results of an associate	–	60
	<hr/>	<hr/>
Operating cash flows before movements in working capital	54,339	44,948
Decrease (increase) in inventories	19,077	(15,699)
(Increase) decrease in trade and other receivables	(2,382)	2,684
Increase in trade and other payables	14,598	5,039
	<hr/>	<hr/>
Cash generated from operations	85,632	36,972
Hong Kong Profits Tax paid	(4,514)	(2,176)
Overseas tax paid	(502)	(501)
Interest paid	(380)	(1,670)
	<hr/>	<hr/>
NET CASH FROM OPERATING ACTIVITIES	80,236	32,625

APPENDIX II

FINANCIAL INFORMATION OF THE GROUP

	<i>Notes</i>	2004 <i>HK\$'000</i>	2003 <i>HK\$'000</i>
INVESTING ACTIVITIES			
Acquisition of an investment property		(38,222)	–
Purchases of property, plant and equipment		(23,058)	(6,137)
Purchases of other investments		(27)	–
Proceeds from disposal of other investments		5,972	–
Proceeds from disposal of investment properties		5,196	900
Proceeds from disposal of property, plant and equipment		1,063	452
Dividend received		428	362
Interest received		245	620
Acquisition of a business unit	27	373	(5,200)
Decrease in pledged bank deposits		–	16,169
Disposal of subsidiaries	26	–	341
Acquisition of investment in an associate		–	(300)
Purchases of investment securities		–	(156)
		<hr/>	<hr/>
NET CASH (USED IN) FROM INVESTING ACTIVITIES		(48,030)	7,051
FINANCING ACTIVITIES			
Repayment of bank loans		(10,419)	(34,952)
Repayment of advance from immediate holding company		(7,074)	(3,901)
New bank loans raised		–	942
		<hr/>	<hr/>
NET CASH USED IN FINANCING ACTIVITIES		(17,493)	(37,911)
NET INCREASE IN CASH AND CASH EQUIVALENTS		14,713	1,765
CASH AND CASH EQUIVALENTS AT APRIL 1		75,638	73,931
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		100	(58)
		<hr/>	<hr/>
CASH AND CASH EQUIVALENTS AT MARCH 31		90,451	75,638
		<hr/> <hr/>	<hr/> <hr/>
ANALYSIS OF THE BALANCES OF CASH AND CASH EQUIVALENTS, represented by bank balances and cash		90,451	75,638
		<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31, 2004

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 Cafaong 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 jewelry products.

2. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS AND PRIOR PERIOD ADJUSTMENT

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

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

Revenue recognition

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

Service income is recognized when services are provided.

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

Rental income, including rental invoiced in advance, from properties under operating leases, is recognized on a straight-line basis over the term of the relevant lease.

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

Investments in subsidiaries

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss.

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 revaluation increase or decrease 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 revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

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

Property, plant and equipment

Property, plant and equipment is stated at cost or valuation less depreciation and accumulated impairment losses.

Land and buildings are stated in the balance sheet at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and any subsequent impairment losses. Revaluations are performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the balance sheet date.

Any revaluation increase arising on revaluation of land and buildings is credited to the other property revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognized as an expense, in which case the increase is credited to the income statement to the extent of the decrease previously charged. A decrease in the net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the other property revaluation reserve relating to a previous revaluation of that asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to accumulated profits.

Depreciation is provided to write off the cost or valuation of items of property, plant and equipment over their estimated useful lives and after taking into account their estimated residual values, using the straight-line method, at the following rates per annum:

Leasehold land and buildings	Over the shorter of the term of the lease or 50 years
Leasehold improvements	25% – 33%
Plant and machinery	20% – 25%
Furniture, fixtures and equipment	25%
Motor vehicles	25%

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

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 recognized in the income statement.

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

Impairment

At each balance sheet date, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to

its recoverable amount. Impairment losses are recognized as an expense immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the impairment loss is treated as a revaluation decrease under that SSAP.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income immediately, unless the relevant asset is carried at a revalued amount under another SSAP, in which case the reversal of the impairment loss is treated as a revaluation increase under that SSAP.

Investments in securities

Investments in securities are recognized 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 unrealized gains and losses included in net profit or loss for the period.

Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is calculated using the weighted average method.

Operating leases

Rentals payable under operating leases are charged to the income statement on a straight-line basis over the relevant lease term.

Foreign currencies

Transactions in currencies other than Hong Kong dollars are initially recorded at the rates of exchange prevailing on the dates of the transactions or at the contracted settlement rate. Monetary assets and liabilities denominated in currencies other than Hong Kong dollars are re-translated at the rates prevailing on the balance sheet date. Profits and losses arising on exchange are included in net profit or loss for the period.

On consolidation, the assets and liabilities of the Group's operations outside Hong Kong are translated at exchange rates prevailing on the balance sheet date. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising, if any, are classified as equity and transferred to the Group's translation reserve. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences, and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from goodwill (or negative goodwill) or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realized. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Retirement benefits scheme

Payments to the Mandatory Provident Fund Scheme and state-managed retirement benefits schemes are charged as an expense as they fall due.

4. 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.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

Segment information about these businesses is presented below:

INCOME STATEMENT

For the year ended March 31, 2004

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

APPENDIX II
FINANCIAL INFORMATION OF THE GROUP
BALANCE SHEET
At March 31, 2004

	Pearls HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	<u>264,979</u>	<u>160,920</u>	425,899
Unallocated corporate assets			<u>136,215</u>
Consolidated total assets			<u>562,114</u>
LIABILITIES			
Segment liabilities	<u>27,954</u>	<u>10,075</u>	38,209
Unallocated corporate liabilities			<u>34,655</u>
Consolidated total liabilities			<u>72,684</u>

OTHER INFORMATION
For the year ended March 31, 2004

	Pearls HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Capital additions	24,078	38,222	–	62,300
Depreciation and amortisation	6,703	–	663	7,366
Impairment loss on investment securities	–	–	1,730	1,730
Allowance for bad and doubtful debts	9,530	–	–	9,530
Loss on disposal of investment properties	–	2,598	–	2,598
Loss on demolition of investment properties	–	2,421	–	2,421
Revaluation increase on leasehold land and buildings	–	–	5,823	5,823
Revaluation increase on investment properties	–	855	–	855
Net unrealized gain on listed other investments	<u>–</u>	<u>–</u>	<u>2,752</u>	<u>2,752</u>

INCOME STATEMENT
For the year ended March 31, 2003
(As restated)

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

BALANCE SHEET*At March 31, 2003**(As restated)*

	Pearls HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
ASSETS			
Segment assets	<u>252,779</u>	<u>112,400</u>	365,179
Unallocated corporate assets			<u>117,654</u>
Consolidated total assets			<u><u>482,833</u></u>
LIABILITIES			
Segment liabilities	<u>18,843</u>	<u>2,658</u>	21,501
Unallocated corporate liabilities			<u>52,385</u>
Consolidated total liabilities			<u><u>73,886</u></u>

OTHER INFORMATION*For the year ended March 31, 2003*

	Pearls HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Capital additions	8,963	2,053	167	11,183
Depreciation and amortisation	6,168	–	803	6,971
Allowance for bad and doubtful debts	440	–	–	440
Revaluation decrease on leasehold land and buildings	–	–	1,390	1,390
Revaluation decrease on investment properties	–	3,025	–	3,025
Net unrealized loss on listed other investments	–	–	3,606	3,606
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

Geographical segments

The Group's operations are located in Hong Kong and the People's Republic of China, other than Hong Kong (the "PRC").

The following table provides an analysis of the Group's revenue and profit from operations by geographical market, irrespective of the origin of the goods or rentals:

	Revenue		Profit from operations	
	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2003 HK\$'000	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2003 HK\$'000
Hong Kong	52,762	54,459	5,264	5,861
North America	117,524	92,830	11,833	11,233
Europe	112,214	69,269	9,210	6,915
Japan	37,489	39,923	3,916	4,856
Other Asian countries	51,864	63,443	2,936	6,479
Others	16,490	10,613	1,257	1,105
	<u>388,343</u>	<u>330,537</u>	34,416	36,449
Unallocated other operating income			10,239	5,095
Unallocated corporate expenses			<u>(3,293)</u>	<u>(11,649)</u>
Profit from operations			<u><u>41,362</u></u>	<u><u>29,895</u></u>

The following is an analysis of the carrying amount of segment assets and capital additions, analysed by the geographical area in which the assets are located:

	Carrying amount of segment assets		Capital additions	
	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2003 HK\$'000	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2003 HK\$'000
Hong Kong	425,194	352,235	42,531	6,698
PRC	133,271	127,740	19,769	4,485
	<u>558,465</u>	<u>479,975</u>	<u>62,300</u>	<u>11,183</u>
6. INVESTMENT INCOME			2004	2003
			HK\$'000	HK\$'000
Interest income			245	620
Dividends received from listed other investments			428	362
Gain on disposal of listed other investments			991	–
			<u>1,664</u>	<u>982</u>
7. PROFIT FROM OPERATIONS			2004	2003
			HK\$'000	HK\$'000
Profit from operations has been arrived at after charging:				
Allowance for bad and doubtful debts			9,530	440
Auditors' remuneration:				
Current year			946	805
Underprovision in previous years			3	204
Depreciation and amortisation			7,366	6,971
Loss on disposal of property, plant and equipment			426	603
Loss on disposal of investment properties			2,598	–
Loss on demolition of investment properties			2,421	–
Staff costs, including directors emoluments			40,850	35,167
and after crediting:				
Rental income from investment properties under operating leases (net of outgoings of HK\$131,000 (2003: HK\$115,000))			<u>6,089</u>	<u>7,340</u>
8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS			2004	2003
			HK\$'000	HK\$'000
(a) Directors' emoluments				
Fees:				
Executive			–	–
Independent non-executive			<u>331</u>	<u>331</u>
			<u>331</u>	<u>331</u>
Other emoluments:				
Executive				
Salaries and other allowances			7,164	7,210
Retirement benefits contributions			36	36
Performance related incentive payment			800	150
Approximate rateable value of a property for a director's accommodation			941	1,076
Independent non-executive			–	–
			<u>8,941</u>	<u>8,472</u>
			<u>9,272</u>	<u>8,803</u>

The directors' emoluments were within the following bands:

	No. of directors	
	2004	2003
Up to HK\$1,000,000	2	2
HK\$1,000,001 to HK\$1,500,000	–	1
HK\$1,500,001 to HK\$2,000,000	1	–
HK\$2,500,001 to HK\$3,000,000	1	–
HK\$3,000,001 to HK\$3,500,000	–	1
HK\$3,500,001 to HK\$4,000,000	1	–
HK\$4,000,001 to HK\$4,500,000	–	1
	<u>2</u>	<u>5</u>

(b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2003: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2003: two) individuals are as follows:

	2004	2003
	HK\$'000	HK\$'000
Salaries and other allowances	2,165	1,050
Retirement benefits contributions	21	16
	<u>2,186</u>	<u>1,066</u>

Their emoluments are within the following bands:

	No. of employees	
	2004	2003
Up to HK\$1,000,000	1	2
HK\$1,000,001 to HK\$1,500,000	1	–
	<u>2</u>	<u>2</u>

During the years ended March 31, 2004 and 2003, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended March 31, 2004 and 2003, no directors waived any emoluments.

9. FINANCE COSTS

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

10. TAXATION

	2004	2003
	HK\$'000	HK\$'000
Current tax:		
Hong Kong	4,990	2,451
PRC	271	2,077
	<u>5,261</u>	<u>4,528</u>
(Over)underprovision in prior year:		
Hong Kong	283	–
PRC	(1,192)	–
	<u>(909)</u>	<u>–</u>
	<u>4,352</u>	<u>4,528</u>
Deferred tax:		
Current year	(296)	(1,001)
Attributable to a change in tax rate	(254)	–
	<u>(550)</u>	<u>(1,001)</u>
	<u>3,802</u>	<u>3,527</u>

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

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

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

The charge for the year can be reconciled to the profit per the income statement as follows:

	2004 HK\$'000	2003 HK\$'000
Profit before taxation	<u>40,982</u>	<u>27,768</u>
Tax at the domestic income tax rate of 17.5% (2003: 16%)	7,172	4,443
Tax effect of expenses that are not deductible in determining taxable profit	288	844
Tax effect of income that is not taxable in determining taxable profit	(1,579)	(1,653)
Tax effect of utilization of tax loss not previously recognized	(1,190)	(667)
Tax effect of additional tax loss not recognized	409	664
Effect of different tax rates of subsidiaries operating in other jurisdictions	(135)	(104)
Overprovision in respect of prior year	(909)	-
Increase in the opening deferred tax asset resulting from an increase in tax rate	<u>(254)</u>	<u>-</u>
Tax expense for the year	<u>3,802</u>	<u>3,527</u>

Details of the deferred taxation are set out in note 16.

11. EARNINGS PER SHARE

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

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

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

The adjustments to comparative earnings per share, arising from the bonus issue and the change in accounting policies described in note 2 above, are as follows:

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

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

12. INVESTMENT PROPERTIES

	<i>HK\$'000</i>
THE GROUP	
At April 1, 2003	112,400
Additions during the year	38,222
Transferred from property, plant and equipment	960
Disposals and demolition during the year	(8,950)
Transferred to property, plant and equipment	(27,200)
Revaluation increase	<u>38,328</u>
At March 31, 2004	<u>153,760</u>

The Group's investment properties at March 31, 2004 were revalued by BMI Appraisals Limited, an independent firm of professional property valuers, on an open market value basis, at HK\$153,760,000. The revaluation increase arising from revaluation of the investment properties amounted to HK\$38,328,000, of which HK\$855,000 has been credited to the income statement and HK\$37,473,000 has been credited 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:

	2004 HK\$'000	2003 HK\$'000
Land and buildings situated in Hong Kong and held under:		
Long leases	94,960	19,940
Medium-term leases	-	30,720
Land and buildings situated in the PRC and held under		
medium-term land use rights	58,800	61,740
	<u>153,760</u>	<u>112,400</u>

In March 2004, the Group entered into a sales and purchase agreement to dispose of an investment property to a third party at a consideration of HK\$71,600,000, which is equivalent to its carrying value at March 31, 2004. The transaction is subject to customary closing conditions and is expected to be completed on or before September 15, 2004.

13. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK\$'000	Construction in progress HK\$'000	Leasehold improve- ments HK\$'000	Plant and machinery HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
THE GROUP							
COST OR VALUATION							
At April 1, 2003	43,830	3,516	14,708	11,910	9,471	4,579	88,014
Currency realignment	(9)	-	(114)	(6)	(65)	(2)	(196)
Additions	-	18,410	1,766	674	2,208	-	23,058
Acquired on acquisition of a business unit	-	-	586	295	139	-	1,020
Transferred from investment properties	27,200	-	-	-	-	-	27,200
Disposals	(750)	-	(2,673)	(166)	(393)	-	(3,982)
Transferred to investment properties	(960)	-	-	-	-	-	(960)
Adjustment on revaluation	8,789	-	-	-	-	-	8,789
At March 31, 2004	<u>78,100</u>	<u>21,926</u>	<u>14,273</u>	<u>12,707</u>	<u>11,360</u>	<u>4,577</u>	<u>142,943</u>
Comprising:							
At cost	-	21,926	14,273	12,707	11,360	4,577	64,843
At valuation - 2004	78,100	-	-	-	-	-	78,100
	<u>78,100</u>	<u>21,926</u>	<u>14,273</u>	<u>12,707</u>	<u>11,360</u>	<u>4,577</u>	<u>142,943</u>
DEPRECIATION AND AMORTISATION							
At April 1, 2003	-	-	12,695	5,822	7,046	3,620	29,183
Currency realignment	-	-	(18)	(3)	(74)	(1)	(96)
Provided for the year	1,723	-	1,388	2,052	1,706	497	7,366
Eliminated on disposals	(7)	-	(2,054)	(166)	(266)	-	(2,493)
Eliminated on revaluation	(1,716)	-	-	-	-	-	(1,716)
At March 31, 2004	<u>-</u>	<u>-</u>	<u>12,011</u>	<u>7,705</u>	<u>8,412</u>	<u>4,116</u>	<u>32,244</u>
NET BOOK VALUES							
At March 31, 2004	<u>78,100</u>	<u>21,926</u>	<u>2,262</u>	<u>5,002</u>	<u>2,948</u>	<u>461</u>	<u>110,699</u>
At March 31, 2003	<u>43,830</u>	<u>3,516</u>	<u>2,013</u>	<u>6,088</u>	<u>2,425</u>	<u>959</u>	<u>58,831</u>

The net book value of leasehold land and buildings shown above comprises:

	2004 HK\$'000	2003 HK\$'000
Land and buildings situated in Hong Kong and held under:		
Long leases	–	960
Medium-term leases	64,800	29,930
Land and buildings situated in the PRC and held under		
medium-term land use rights	13,300	12,940
	<u>78,100</u>	<u>43,830</u>

The Group's leasehold land and buildings at March 31, 2004 were revalued by BMI Appraisals Limited, which is an independent firm of professional property valuers, on an open market value basis, at HK\$78,100,000. The revaluation increase arising from revaluation of the leasehold land and buildings amounted to HK\$10,505,000, of which HK\$5,823,000 has been credited to the income statement and HK\$4,682,000 has been credited to the other property revaluation reserve.

If the leasehold land and buildings had not been revalued, they would have been included in these financial statements at historical cost less accumulated depreciation of HK\$74,780,000 (2003: HK\$51,450,000).

14. INTERESTS IN SUBSIDIARIES

	THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Unlisted shares, at cost	206,664	206,664
Amounts due from subsidiaries	132,160	129,374
	<u>338,824</u>	<u>336,038</u>

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.

The amounts due from subsidiaries are unsecured, non-interest bearing and have no fixed terms of repayment. In the opinion of the directors, the amounts will not be repayable within twelve months from the balance sheet date and accordingly, the amounts are classified as non-current.

None of the subsidiaries had issued any debt securities at the end of the year.

Details of the Company's subsidiaries at March 31, 2004 are set out in note 35.

15. INVESTMENT SECURITIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Unlisted investments in the PRC, at cost	5,586	5,586
Impairment loss (<i>note</i>)	(4,730)	(3,000)
	<u>856</u>	<u>2,586</u>

Note: The amount represents an impairment loss recognized on an investment in a 19.5% equity interest in Shantou City Shaohe Pearl Seawater Cultured Co., Ltd. (汕頭市紹河珍珠海水養殖有限公司), a company registered in the PRC which is engaged in the cultivation of saltwater pearls. During the year ended March 31, 2004, the directors reviewed the carrying value of the investment securities by reference to the recoverable value of their underlying assets and liabilities and determined that the investment securities have been fully impaired. Accordingly, the investment securities at March 31, 2004 were reduced by an additional amount of HK\$1,730,000 to reflect this impairment.

16. DEFERRED TAXATION

The following are the major deferred tax liabilities (assets) recognized by the Group and movements thereon during the current and prior reporting periods.

THE GROUP

	Revaluation of properties HK\$'000	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Unrealized profit in inventories HK\$'000	Total HK\$'000
At April 1, 2002					
- as previously reported	-	-	-	-	-
- adjustment on adoption of SSAP 12 (Revised)	14,201	(418)	(1,292)	-	12,491
- as restated	14,201	(418)	(1,292)	-	12,491
Charge (credit) to income for the year	-	1,353	146	(2,500)	(1,001)
Charge to equity for the year	477	-	-	-	477
At April 1, 2003	14,678	935	(1,146)	(2,500)	11,967
Charge (credit) to income for the year	-	436	56	(788)	(296)
Charge to equity for the year	171	-	-	-	171
Effect of change in tax rate charge (credit) to income statement	-	88	(108)	(234)	(254)
At March 31, 2004	<u>14,849</u>	<u>1,459</u>	<u>(1,198)</u>	<u>(3,522)</u>	<u>11,588</u>

For the purpose of balance sheet presentation, certain deferred tax assets and liabilities have been offset in accordance with conditions set out in SSAP 12 (Revised). The following is the analysis of the deferred taxation for financial reporting purposes:

	2004 HK\$'000	2003 HK\$'000
Deferred tax liabilities	15,237	14,825
Deferred tax assets	<u>(3,649)</u>	<u>(2,858)</u>
	<u>11,588</u>	<u>11,967</u>

At March 31, 2004, the Group has unused tax losses of HK\$28,685,000 (2003: HK\$26,737,000) available for offset against future profits. A deferred tax asset has been recognized in respect of HK\$6,848,000 (2003: HK\$7,162,000) of such losses. No deferred tax asset has been recognized in respect of the remaining HK\$21,837,000 (2003: HK\$19,575,000) due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At March 31, 2004, the Group also has deductible temporary differences of HK\$27,481,000 (2003: HK\$29,308,000) attributable to unrealized profit in inventories. A deferred tax asset has been recognized in respect of HK\$23,481,000 (2003: HK\$26,863,000) of such deductible temporary differences. No deferred tax asset has been recognized in respect of the remaining HK\$4,000,000 (2003: HK\$2,445,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

THE COMPANY

At March 31, 2004, the Company has unused tax losses of HK\$7,885,000 (2003: HK\$11,247,000) available for offset against future profits. No deferred tax asset has been recognized due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

17. INVENTORIES

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Raw materials	14,676	12,917
Work in progress	19,659	29,399
Finished goods	80,962	91,894
	<u>115,297</u>	<u>134,210</u>

At March 31, 2004, included above are finished goods of HK\$67,021,000 (2003: HK\$80,344,000) carried at net realizable value.

18. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables of the Group are trade receivables of HK\$62,993,000 (2003: HK\$69,841,000) and their aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 60 days	62,735	59,969
61 – 120 days	258	8,371
> 120 days	–	1,501
	<u>62,993</u>	<u>69,841</u>

Included in trade and other receivables is a stakeholder's deposit of HK\$7,160,000 held by a solicitor firm, Messrs. Yuen & Partners in respect of sales of an investment property which is expected to be completed on or before September 15, 2004 (see note 12).

19. OTHER INVESTMENTS

	THE GROUP AND THE COMPANY	
	2004 HK\$'000	2003 HK\$'000
Listed equity investments in Hong Kong, at market value	<u>7,776</u>	<u>9,978</u>

20. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$13,234,000 (2003: HK\$5,553,000) and their aged analysis is as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
0 – 60 days	12,980	4,972
61 – 120 days	193	576
> 120 days	61	5
	<u>13,234</u>	<u>5,553</u>

21. SECURED BANK BORROWINGS

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
The secured bank borrowings are repayable as follows:		
Within one year or on demand	5,575	5,575
More than one year, but not exceeding two years	4,975	5,575
More than two years, but not exceeding five years	1,041	9,141
More than five years	–	1,719
	<u>11,591</u>	<u>22,010</u>
Less: Amount due within one year, shown under current liabilities	<u>(5,575)</u>	<u>(5,575)</u>
Amount due after one year	<u>6,016</u>	<u>16,435</u>

22. SHARE CAPITAL

	Number of Shares		Share Capital	
	2004 '000	2003 '000	2004 HK\$'000	2003 HK\$'000
Ordinary shares of HK\$0.10 each				
Authorized:	<u>1,500,000</u>	<u>1,500,000</u>	<u>150,000</u>	<u>150,000</u>
Issued and fully paid:				
At beginning of the year	751,871	751,871	75,187	75,187
Bonus issue of shares (<i>note</i>)	<u>75,187</u>	<u>-</u>	<u>7,519</u>	<u>-</u>
At end of the year	<u>827,058</u>	<u>751,871</u>	<u>82,706</u>	<u>75,187</u>

Note: Pursuant to the annual general meeting held on August 6, 2003, a bonus issue of shares on the basis of one share for every ten shares held was approved. 75,187,000 bonus shares were issued under the bonus issue and the amount HK\$7,519,000 was capitalized from the Company's share premium account.

The bonus shares were credited as fully paid and rank *pari passu* with the then existing shares in all respects.

23. SHARE OPTION SCHEMES

- (a) The Company adopted a share option scheme on September 8, 1997 (the "1997 Scheme") for the primary purpose of providing the employees of the Group with an opportunity to obtain equity interest in the Company, thus linking their interest with the interest of the Group and thereby providing them with an incentive to work better for the interest of the Group. Under the 1997 Scheme, the board of directors of the Company may grant options to full-time employees of the Group including executive directors, to subscribe for shares in the Company at a price determined by the board of directors being not less than 80% of the average of the closing prices of the shares on the Stock Exchange for the five trading days immediately preceding the date of the grant of the options or the nominal value of the shares, whichever is the higher, subject to a maximum of 10% of the issued share capital of the Company from time to time.

No employee shall be granted an option which, if exercised in full, would result in that employee becoming entitled to subscribe for more than 25% of the aggregate number of shares for the time being issued and issuable under the 1997 Scheme.

The 1997 Scheme is valid and effective for a period of 10 years commencing September 8, 1997.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$10 for each grant of options. Options may be exercised at any time within a period of two years commencing on the expiry of six months after respective date of acceptance and expiring on the last day of the two-year period or the tenth anniversary of the date of adoption of the 1997 Scheme, whichever is the earlier.

All options under the 1997 Scheme lapsed during the year ended March 31, 2003. The following table discloses movements in the Company's share options granted under the 1997 Scheme during the two years ended March 31, 2004:

	Date of grant	Exercise price per share HK\$	Outstanding at April 1, 2002	Lapsed during the year ended March 31, 2003	Outstanding at April 1, 2003 and March 31, 2004
Directors	November 16, 1999	0.2133	5,520,861	(5,520,861)	-
	April 28, 2000	0.2475	<u>30,000,000</u>	<u>(30,000,000)</u>	<u>-</u>
Total for directors			<u>35,520,861</u>	<u>(35,520,861)</u>	<u>-</u>
Other employees	November 16, 1999	0.2133	2,940,458	(2,940,458)	-
	April 28, 2000	0.2475	<u>4,800,000</u>	<u>(4,800,000)</u>	<u>-</u>
Total for other employees			<u>7,740,458</u>	<u>(7,740,458)</u>	<u>-</u>
			<u>43,261,319</u>	<u>(43,261,319)</u>	<u>-</u>

The share options granted on November 16, 1999 could have been exercised at any time during the period from May 16, 2000 to May 15, 2002 while those granted on April 28, 2000 could be exercised at any time during the period from October 28, 2000 to October 27, 2002.

- (b) Pursuant to the changes of the Rules Governing the Listing of Securities on the Stock Exchange in relation to share option schemes, on August 2, 2002, the Company adopted a new share option scheme (the "2002 Scheme") and terminated the 1997 Scheme. Upon termination of the 1997 Scheme, no further options will be granted thereunder but in all other respects, the provisions of the 1997 Scheme shall remain in force and all outstanding options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The purpose of the 2002 Scheme is to provide incentives to the eligible participants to contribute to the Group and to enable the Group to recruit high-caliber employees and attract resources that are valuable to the Group. Under the 2002 Scheme, the board of directors of the Company may grant options to any person being an employee, officer, agent, or consultant of the Group including executive or non-executive directors of the Company and its subsidiaries, to subscribe for shares in the Company at a price to be determined by the board of directors being at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant of the option, which must be a trading day; (b) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of grant of the option; and (c) the nominal value of the shares.

The total number of shares in respect of which the 2002 Scheme and any other share option schemes of the Group is not permitted to exceed 10% of the number of shares in issue at the date of adoption of the 2002 Scheme or such number of shares as result from a sub-division or consolidation of the number of shares at that date. Subject as provided in the 2002 Scheme, the Company may seek approval from its shareholders in general meeting to refresh this 10% limit, but the total number of shares which may be issued under the 2002 Scheme must not exceed 30% of the number of shares in issue from time to time.

No participant shall be granted an option which, if accepted and exercised in full, would result in the participant becoming entitled to subscribe for such number of shares as, when aggregated with the total number of shares already issued and which may be issued upon exercise of all options granted and to be granted to him, together with all options granted and to be granted to him under any other share option schemes of the Company and/or any subsidiaries, within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options), would exceed 1% of the number of shares in issue as at the proposed date of grant.

The 2002 Scheme shall be valid and effective for a period of 10 years commencing August 2, 2002.

Options granted must be taken up within 28 days of the date of grant upon payment of HK\$1 for each grant of options. Subject as provided in the 2002 Scheme, options may be exercised at any time during the option period, which is to be notified by the board of directors to each grantee, commencing on the date of grant or such later date as the board of directors may decide and expiring on such date as the board of directors may determine, provided that such period is not to exceed ten years from the date of grant, and subject to any restrictions that may be imposed by the board of directors in its discretion.

Details of the principal terms of the 2002 Scheme are set out in the circular of the Company dated July 4, 2002.

No options have been granted under the 2002 Scheme since its adoption.

- (c) The stock option plan of Man Sang Holdings, Inc. ("MSH"), an intermediate holding company of the Company (the "MSH Option Plan") was adopted on October 17, 1996 for the primary purpose of providing incentives to employees, consultants and directors of MSH and its affiliates, including subsidiaries. The MSH Option Plan will remain effective until October 2006.

The maximum number of shares of common stock which may be issued or delivered and as to which awards may be granted under the MSH Option Plan was 1,000,000 shares, which was subsequently revised to 2,000,000 shares, as adjusted by the antidilution provisions contained in the MSH Option Plan. The exercise price for a stock option must be at least equal to 100% (110% with respect to incentive stock options granted to participants holding ten percent or more of the outstanding common stock) of the fair market value of the common stock on the date of grant of such stock option for incentive stock options, which are available only to employees of the Company, and 85% of the fair market value of the common stock on the date of grant of such stock option for other stock options.

The duration of each option will be determined by the Compensation Committee, but no option will be exercisable more than ten years from the date of grant (or, with respect to incentive stock options granted to participants holding ten percent or more of the outstanding common stock not more than five years from the date of grant). Unless otherwise determined by the Compensation Committee and provided in the applicable option agreement, options will be exercisable within three months of any termination of employment, including termination due to disability, death or normal retirement (but no later than the expiration date of the option).

The following table discloses the movements in the stock options of MSH granted under the MSH Option Plan during the two years ended March 31, 2004:

	Date of grant	Exercise price per share US\$	Outstanding at April 1, 2002	Granted during the year ended March 31, 2003	Outstanding at April 1, 2003 and March 31, 2004
Directors	September 16, 1997	1.22	300,000	-	300,000
	March 26, 2003	1.10	-	250,000	250,000
			<u>300,000</u>	<u>250,000</u>	<u>550,000</u>
Other employees	September 16, 1997	1.22	150,000	-	150,000
			<u>450,000</u>	<u>250,000</u>	<u>700,000</u>

For stock options granted on September 16, 1997, the holders can subscribe for the shares of common stock at a subscription price of US\$1.22 per share. 50% of the granted stock options vested and became exercisable on September 16, 1998 and the remainder vested and became exercisable on September 16, 1999. The options expire on September 15, 2007. For stock options granted on March 26, 2003, the holders can subscribe for the shares of common stock at a subscription price of US\$1.10 per share, 50% of which vested and became exercisable on March 26, 2004, and the remainder vest and became exercisable on March 26, 2005. The options expire on March 25, 2013.

No stock options were exercised by the grantees during the years ended March 31, 2003 and 2004. It is not practicable to allocate the directors' entitlements between their services to each of MSH and its affiliates.

24. RESERVES

	Share premium HK\$'000	Contributed surplus HK\$'000	Accumulated (losses) profits HK\$'000	Total HK\$'000
THE COMPANY				
Balance at April 1, 2002	75,728	206,459	(174)	282,013
Net loss for the year	-	-	(3,579)	(3,579)
Balance at April 1, 2003	75,728	206,459	(3,753)	278,434
Capitalization on bonus issue of shares	(7,519)	-	-	(7,519)
Net profit for the year	-	-	3,837	3,837
Balance at March 31, 2004	<u>68,209</u>	<u>206,459</u>	<u>84</u>	<u>274,752</u>

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.

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:

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

In the opinion of the Company's directors, the Company's net reserves available for distribution to shareholders at March 31, 2004 amounted to HK\$206,543,000 (2003: HK\$202,706,000), which represents the aggregate of contributed surplus of HK\$206,459,000 (2003: HK\$206,459,000) and accumulated profits of HK\$84,000 (2003: accumulated losses of HK\$3,753,000).

25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

The amount is unsecured and non-interest bearing and has no fixed terms of repayment. The immediate holding company agreed that the amount will not be repayable within twelve months from the balance sheet date and accordingly the amount is classified as non-current.

26. DISPOSAL OF SUBSIDIARIES

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET ASSETS DISPOSED OF		
Property, plant and equipment	–	431
Interests in an associate	–	240
Inventories	–	3,428
Trade and other receivables	–	1,506
Bank balances and cash	–	1,966
Trade and other payables	–	(1,850)
Minority interests	–	(1,720)
	<u>–</u>	<u>4,001</u>
Loss on disposal	–	(438)
	<u>–</u>	<u>3,563</u>
Total consideration	<u>–</u>	<u>3,563</u>
SATISFIED BY		
Cash	–	2,307
Inventories	–	1,256
	<u>–</u>	<u>3,563</u>
Net cash inflow arising on disposal:		
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
Cash consideration	–	2,307
Bank balances and cash disposed of	–	(1,966)
	<u>–</u>	<u>341</u>

The subsidiaries disposed of during 2003 did not have material contribution to the Group's turnover or profit from operations.

27. ACQUISITION OF A BUSINESS UNIT

During the year, the Group acquired a business unit which is principally engaged in the manufacturing of jewelry products for a consideration of HK\$190,000. During the year ended March 31, 2003, the Group acquired another business unit which is principally engaged in the trading of jewelry products for a consideration of HK\$7,200,000. Details of the acquisitions are as follows:

	THE GROUP	
	2004	2003
	<i>HK\$'000</i>	<i>HK\$'000</i>
NET ASSETS ACQUIRED		
Property, plant and equipment	1,020	5,046
Inventories	164	2,154
Trade and other receivables	578	–
Bank balances and cash	373	–
Trade and other payables	(1,945)	–
	<u>190</u>	<u>7,200</u>
Consideration	<u>190</u>	<u>7,200</u>
Satisfied by:		
Offset against a receivable from the vendor	190	–
Cash paid on acquisition	–	5,200
Outstanding instalments payable within one year	–	2,000
	<u>190</u>	<u>7,200</u>

Analysis of net inflow (outflow) of cash and cash equivalents in connection with the acquisitions:

	2004 HK\$'000	2003 HK\$'000
Consideration paid	–	(5,200)
Bank balances and cash acquired	373	–
	<u>373</u>	<u>(5,200)</u>

28. 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	
	2004 HK\$'000	2003 HK\$'000
Carrying amount of leasehold land and buildings	74,980	39,050
Carrying amount of investments properties	132,662	83,894
	<u>207,642</u>	<u>122,944</u>

29. CAPITAL COMMITMENT

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	4,419	–

The Company had no capital commitment at the balance sheet date.

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

Minimum lease payments paid under operating leases in respect of land and buildings during the year were HK\$3,693,000 (2003: HK\$3,974,000).

At the balance sheet date, the Group had outstanding commitments for the future minimum lease payments under non-cancellable operating leases in respect of land and buildings which fall due as follows:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Operating leases which expire:		
Within one year	448	1,025
In the second to fifth year inclusive	6	–
	<u>454</u>	<u>1,025</u>

Leases are negotiated for an average term of one to two years and rentals are fixed during the relevant lease period.

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

The Group as lessor

Property rental income earned during the year was HK\$6,220,000 (2003: HK\$7,455,000). Most of the investment properties held have committed tenants for the next one to two years.

At the balance sheet date, the Group had contracted with tenants for the following future minimum lease payments:

	THE GROUP	
	2004 HK\$'000	2003 HK\$'000
Within one year	2,941	1,358
In the second to fifth year inclusive	3,577	334
	6,518	1,692

The Company does not have any contracted tenants for operating lease rentals at the balance sheet date.

31. CONTINGENT LIABILITIES

At March 31, 2004, the Company had issued corporate guarantees to banks in respect of general banking facilities granted to its subsidiaries. The extent of facilities utilized by the subsidiaries at March 31, 2004 amounted to HK\$11,591,000 (2003: HK\$22,010,000).

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

32. LITIGATION

On December 2, 2003, Arcadia Jewellery Limited ("Arcadia"), a subsidiary of the Company, filed a lawsuit in Hong Kong against its former general manager and certain other parties (the "Defendants") for breach of a business transfer agreement, an employment agreement and a consultancy agreement ("Case 1"). Arcadia is claiming against the Defendants for, inter alia, account and inquiry; repayment of monies of at least HK\$832,000; damages; interest; a declaration that the consultancy agreement is null and void and Arcadia is entitled to rescind the same; a declaration that Arcadia is entitled to exercise its right under clause 16 of the business transfer agreement (i.e. not to pay the balance of the purchase consideration of HK\$1,000,000); return of the purported consultancy fees or earnest money, the amount of which is to be assessed; costs and further or other relief.

On December 22, 2003, this former general manager filed a lawsuit in Hong Kong against Arcadia in respect of the aforesaid employment agreement for a monetary claim of approximately HK\$395,000 and also a declaration that the restraint of trade covenants under the aforesaid employment agreement are void and unenforceable. Afterwards, this former general manager agreed to transfer his monetary claim to the Labour Tribunal in Hong Kong and consolidate the rest of his case into Case 1. Although it is not possible to predict with certainty at the moment the outcome of these unresolved legal actions or pending claim or the amount of possible loss or recovery, the directors do not believe that the resolution of these matters will have a material adverse effect on the Group's financial position or operating results.

33. RELATED PARTY TRANSACTIONS

During the year, Messrs. Yuen & Partners received professional fees of HK\$375,000 (2003: HK\$301,000) 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.

During the year, the Group sold jewellery products amounting to HK\$298,000 to China South International Industrial Materials City (Shenzhen) Co., Ltd., a company in which Messrs. Cheng Chung Hing and Cheng Tai Po have beneficial interests.

During the year ended March 31, 2003, the Group disposed of its entire equity interest in a wholly owned subsidiary, Accurate Gain Developments Limited, for a consideration of HK\$300,000 to Messrs. Cheng Chung Hing and Cheng Tai Po, directors of the Company. The gain arising from the disposal amounted to approximately HK\$60,000.

The above transactions were carried out based on terms agreed by the relevant parties to the transactions.

Save as disclosed in the financial statements, these were no significant related party transactions.

34. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of an independent trustee. The Group contributes 5% of relevant payroll costs to the MPF Scheme, which contribution is matched by employees.

The employees of the Group's subsidiaries in the PRC are members of a state-managed retirement benefits scheme being operated by the local PRC government. The subsidiaries are required to contribute 8% of the average basic salary to the retirement benefits scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefits scheme is to make the specified contributions.

The total cost charged to income statement of HK\$820,000 (2003: HK\$737,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

35. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at March 31, 2004 are as follows:

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 by the Company	Principal activities
Arcadia Jewellery Limited	Hong Kong	Ordinary shares HK\$500,000	100%	Trading and manufacturing of jewelry products
Asean Gold Limited	British Virgin Islands/Hong Kong	Ordinary shares US\$10,000	100%	Investment holding
Cyber Bizport Limited	Hong Kong	Ordinary shares HK\$10,000,000	100%	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\$5,000	100%	Property holding
M. S. Collections Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%	Investment holding
Man Hing Industry Development (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$16,800,000	100%	Purchasing and processing of pearls and assembling of pearl jewelry and property investment
Man Sang Development Company Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Investment and property holding
Man Sang Enterprise Ltd.	British Virgin Islands/Hong Kong	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/Hong Kong	Ordinary shares US\$100	100%	Investment holding
Peking Pearls Company Limited	Hong Kong	Ordinary shares HK\$2	100%	Inactive

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 by the Company	Principal activities
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
4376zone.com Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Retail of jewelry and e-commerce trading

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.

Note 3: Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd., Man Hing Industry Development (Shenzhen) Co., Ltd. and Tangzhu Jewellery Goods (Shenzhen) Co., Ltd. were registered in the PRC as foreign wholly-owned investment enterprises.

2. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

The Group will continue to focus on its core business of pearls and property investment. Information about the Group's financial and trading prospects generally is set down in this section.

Pearls Business

The Group is engaged in the purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and jewellery products, which provides a comprehensive range of pearls including Chinese Freshwater pearls, Chinese cultured pearls, Tahitian pearls and South Sea pearls. With over 20 years of experience in the pearl industry, the Group has already established a good network of customer bases and suppliers. Pearls are mainly used in jewellery products and pearl jewellery products continue to grow in its popularity and the demand for pearls and pearl jewellery products also increase in recent years. The Group will continue to build our customer base to expand our pearl and jewellery business and to maintain its strong market position and market share in its core pearl business. Looking ahead, the global economy will continue to keep on growing at a healthy pace and the Group expects to benefit from it.

China is currently the largest producer of freshwater cultured pearls in the world. Zhuji Municipal is currently one of the largest freshwater pearls nurturing and trading centres in the PRC with a long history of offering a comprehensive range of freshwater pearls and other pearl products. The Investment will enable the Group to get access to more customers and to become one of the market leaders in pearl and jewellery business in the future.

Property Investment

The Group's property investments are located in both Hong Kong and PRC held for generating steady rental income. The Group has acquired the land use right in 1991 for development of Man Sang Industrial City located in Bao An, Shenzhen, PRC. Man Sang Industrial City consists of 27 completed buildings with a total gross floor area of approximately 780,000 square feet of which 18 buildings are held for rental purposes and the remaining 9 buildings are for the Group's own use. The property prices in Shenzhen continue to rise at a steady pace together with the scarce supply of land in the PRC, the Group expects that the rental market will remain healthy with steady growth in its income. In addition, the Group holds several investment and leasehold properties located in Hong Kong for leasing and for its own use's purposes.

With the acquisition of the Investment, the Group's properties portfolio will be more diverse and with the importance of its location, the Group will expect to generate steady flow of rental income and at the same time gaining synergy on our pearl business.



10th Floor
Jardine House
Central
Hong Kong

31 March 2006

The Directors
Man Sang International Limited
21st Floor, Railway Plaza
39 Chatham Road South
Tsim Sha Tsui
Kowloon, Hong Kong

Dear Sirs,

Re: 2 pieces of contiguous site of 356,987.80 sq.m. & 53,179 sq.m. at Shanxiahu Town, Zhuji, Zhejiang Province, the PRC

Instructions, Purpose & Date of Valuation

We refer to your instructions for us to value the interest in the captioned property contracted to be acquired by Man Sang International Limited (referred to as the "Company") or its subsidiaries (together referred to as the "Group") in the People's Republic of China (the "PRC"). We confirm that we have carried out inspection, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of the property interest as at 24 January 2006 (the "Date of Valuation").

Basis of Valuation

Our valuation of the property interest is our opinion of the market value which we would define as intended to mean the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Valuation Assumptions

Our valuation excludes an estimated price inflated or deflated by special terms or circumstances such as atypical financing, sale and leaseback arrangement, special considerations or concessions granted by anyone associated with the sale, or any element of special value.

We have relied on the information given by the Group and the opinion of its PRC legal adviser, DeHeng Law Firm Shenzhen Office, regarding the title to the property interest in the PRC and the interest of the Group in the property in the PRC. The status of titles and grant of major approvals and licences, in accordance with the information provided by the Group and the PRC legal opinion are set out in the notes in the valuation certificate.

No allowance has been made in our valuations of the property interest for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property is free from encumbrances, restrictions and outgoings of any onerous nature which could affect its value.

The property valuation complies with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

Method of Valuation

In valuing the property interest, we have adopted the direct comparison approach by making reference to comparable sales evidence as available in the relevant market. We have valued the property interest as a whole.

Source of Information

In the course of our valuation, we have relied to a very considerable extent on the information given by the Group and its legal adviser on PRC law and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, completion date of buildings, identification of buildings, development schemes, site and floor areas, interest attributable to the Group and all other relevant matters.

Dimensions, measurements and areas included in the valuation certificate are based on information provided to us and are therefore only approximations. We have no reason to doubt the truth and accuracy of the information provided to us by the Group which is material to the valuation. We were also advised by the Group that no material facts have been omitted from the information provided.

Title Investigation

In respect of the property interest in the PRC, we have been provided with extracts of documents in relation to the title to the property interest. However, we have not inspected the original documents to ascertain any amendments which may not appear on the copies handed to us.

Site Inspection

We have inspected the exterior and, wherever possible, the interior of the property interest. However, we have not carried out investigations on site to determine the suitability of the soil conditions and the services etc. for any development. Our valuations are prepared on the assumption that these aspects are satisfactory and that no extraordinary expenses or delays will be incurred during the construction period. Unless otherwise stated, we have not been able to carry out detailed on-site measurements to verify the site and floor areas of the property and we have assumed that the areas shown on the documents handed to us are correct.

Exchange Rate

Unless otherwise stated, all sums stated in our valuation certificate are in Renminbi, the official currency of the PRC.

The valuation certificate is attached.

Yours faithfully,
for and on behalf of
DTZ Debenham Tie Leung Limited
Philip C. Y. Tsang
Registered Professional Surveyor (GP)
China Real Estate Appraiser
MSc., M.H.K.I.S., M.R.I.C.S
Senior Associate Director

Note: Mr. Philip C.Y. Tsang is a Registered Professional Surveyor who has over 13 years' of experience in the valuation of properties in the PRC.

VALUATION CERTIFICATE

Property held for development in the PRC

Property interest	Description and tenure	Particulars of occupancy	Capital value in existing state as at 24 January 2006
2 pieces of contiguous site of 356,987.80 sq.m. & 53,179.00 sq.m. at Shanxiahu Town, Zhuji, Zhejiang Province, the PRC	<p>The property comprises 2 pieces of contiguous site of 356,987.80 sq.m. & 53,179.00 sq.m.. The total site area is approximately 410,166.80 sq.m.</p> <p>The property is planned to be developed into Phase 1, Zhuji Jewellery City with different function of jewellery processing, storage and delivery, exhibition, ancillary commercial and residential development.</p> <p>The land use rights of part of the property with a site area of approximately 30,980.00 sq.m. would be transferred for a term due to expiring on 1 March 2040 for commercial use; and the land use rights of the remaining part of the property would be granted for respective terms of 40 years for commercial use, 50 years for industrial use and 70 years for residential use.</p>	<p>356,987.80 sq.m. site is currently vacant pending for development.</p> <p>53,179.00 sq.m. site is erected with a 3-storey commercial building which is currently occupied as a Zhuji Pearl Market by various tenants. The existing latest tenancies will expire in 2007.</p> <p>The said building will be demolished for development together with the 356,987.80 sq.m. site as a whole.</p> <p>In the course of our valuation, we have valued the property as a vacant site and disregarded the said existing building.</p>	RMB 150,000,000 (Please see Note 1)

Notes:

- (1) The relevant Realty Title Certificate has not been issued. We have prepared the capital value of the property interest in existing state as at 24 January 2006 assuming all relevant title certificates have been obtained.
- (2) According to Establishment Contract on Development of Phase 1 of Zhuji Jewellery City entered into between Zhuji City Shanxiahu Town Government (Party A) and China Pearls and Jewellery City Holdings Limited 中國諸暨珠寶城控股有限公司 (Party B) on 24 January 2006, Party A would provide the land use rights of the property to Party B or its WOFE by subsequent land listing procedure as follows:
 - (i) Location : Zhuji Municipal Pearl Processing Area (諸暨市珍珠產品加工園區), Shanxiahu Town, Zhuji, Zhejiang Province, the PRC
 - (ii) Total site area : 410,166.80 sq.m. (including 356,987.80 sq.m. for the development of the Phase 1 project, of which 200,000.00 sq.m. for pearls & jewellery market use, 96,987.80 sq.m. for industrial use, 60,000.00 sq.m. for commercial and residential use, and 53,179.00 sq.m. currently occupied by the existing Zhuji Pearl Market for commercial use)
 - (iii) Use : Commercial, pearls & jewellery market, industrial and residential use.
 - (iv) Land Use Term : The land use rights of part of the property with a site area of approximately 30,980.00 sq.m. would be transferred for a term due to expiring on 1 March 2040 for commercial use; and the land use rights of the remaining part of the property would be granted for respective terms of 40 years for commercial use, 50 years for industrial use and 70 years for residential use.

- (v) Land Development Period : Party B should complete the development of Phase 1 of Zhuji Jewellery City within 30 months from the latest date of (i) completion of all legal formalities effecting transfer of land use rights to WOFE or the HK Company; (ii) approval granted for the establishment of the project; (iii) construction approval granted for the project and (iv) approval documents granted for commencement of construction.
- (vi) Plot Ratio : The existing Zhuji Pearl Market is allowed to be demolished and rebuilt after the completion of Phase 1 of Zhuji Jewellery City. The plot ratio of the land of Phase 1 and the part to be rebuilt can not exceed the upmost limit set by Zhejiang Provincial Government.
- (vii) Dealing of Lease : Leases of the existing Zhuji Pearl Market will all expire before 31 March 2007. It is ascertained that all leases will expire automatically without renew after the expiration date.
- (viii) Schedule of Grant of Land : the site of 356,987.80 sq.m. for the Phase 1 of Zhuji Jewellery City must be granted to Party B or its WOFE on or before 30 June 2006 and the site of 53,179 sq.m. occupied by the existing Zhuji Pearl Market must be granted or transferred to Party B or its WOFE on or before 30 September 2006.
- (3) The opinion of the Company's legal adviser on PRC law states, inter alia, that:
- (i) Zhuji Municipal Government has approved the Establishment Contract entered into between Zhuji City Shanxiahu Town Government (Party A) and China Pearls and Jewellery City Holdings Limited 中國諸暨珠寶城控股有限公司 (Party B).
- (ii) China Pearls and Jewellery City Holdings Limited 中國諸暨珠寶城控股有限公司 should establish a WOFE in Zhuji City to carry out the Establishment Contract.
- (iii) Portion of the land is currently agriculture use, the procedure to transform the agriculture use to development land use should be processed and approved by Zhejiang Province Government. Zhuji Municipal Government should process the land acquisition.
- (iv) The WOFE can enter into the Grant Contract of Land Use Rights with the land administration department after the Zhuji Municipal Government has finished the land acquisition. Thereafter, China Pearls and Jewellery City Holdings Limited 中國諸暨珠寶城控股有限公司 only needs to process the relevant complementary administration documentation procedures in Zhuji land administration department.
- (4) The status of the title and grant of major approvals and licences in accordance with the PRC legal opinion and the information provided by the Group is as follows:-
- | | |
|--|-----|
| Realty Title Certificate | No |
| Contract for Grant of State-owned Land Use Rights | No |
| Establishment Contract on Development of Phase 1 of Zhuji Jewellery City | Yes |
| Red-line Drawing | Yes |
| Business Licence | No |

RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Group. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, there are no other facts not contained in this circular, the omission of which would make any statement herein misleading.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES

As at the Latest Practicable Date, the following directors and chief executive of the Company were interested, or were deemed to be interested in the following interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) (a) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which he is taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies adopted by the Company to be notified to the Company and the Stock Exchange.

(a) Interests in shares of the Company

Name of director	Capacity	Number of ordinary shares of HK\$0.10 each held			Short Position	Percentage of the issued share capital of the Company
		Direct interest (Long Position)	Deemed interest (Long Position)	Total interest (Long Position)		
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	101,139,241	494,406,000	595,545,241	-	59.51%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	76,086,179	494,406,000	570,492,179	-	57.01%

Note 1: These shares were indirectly owned by (a) Man Sang Holdings, Inc. ("MSH"), a company incorporated in the State of Nevada, the United States of America and (b) Cafoong Limited ("Cafoong"), a company incorporated in the British Virgin Islands. Both MSH and Cafoong Limited held their interest in shares of the Company, through an indirect interest in Man Sang International (B.V.I.) Limited ("MSBVI"), a company incorporated in the British Virgin Islands which directly holds these 494,406,000 shares. Cafoong indirectly holds 100% equity interest in MSBVI through MSH, in which Cafoong holds

53.86% of the common stock and all the Series A preferred stock at the Latest Practicable Date, which totally represent 69.24% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po own 60% and 40% of the issued share capital of Cafoong, respectively.

(b) Share options of the Company

No options have been granted under the Company's share option scheme which was adopted on August 2, 2002.

(c) Long Position in shares in an associated corporation – M.S. Electronic Emporium Limited ("MS Electronic")

Name of director	Capacity	Numbers of ordinary shares of US\$1.00 each in MS Electronic held		Percentage of ordinary shares of MS Electronic
		Deemed interest (Note 2)	Total interest	
Mr. Cheng Chung Hing	Held by a controlled corporation	100	100	100%
Mr. Cheng Tai Po	Held by a controlled corporation	100	100	100%

Note 2: These shares were directly and indirectly owned by MSBVI, MSH and Cafoong. MSBVI holds the entire issued share capital of MS Electronic while its entire issued share capital is owned by MSH. Cafoong holds 53.86% of the common stock and all the Series A preferred stock of MSH and Messrs. Cheng Chung Hing and Cheng Tai Po personally hold an aggregate of 8.813% of the common stock of MSH at the Latest Practicable Date, which totally represent 75.114% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong, respectively.

(d) Long Position in shares in an associated corporation – MSBVI

Name of director	Capacity	Numbers of ordinary shares of US\$1.00 each in MSBVI held		Percentage of ordinary shares of MSBVI
		Deemed interest (Note 3)	Total interest	
Mr. Cheng Chung Hing	Held by a controlled corporation	10,000	10,000	100%
Mr. Cheng Tai Po	Held by a controlled corporation	10,000	10,000	100%

Note 3: These shares were directly and indirectly owned by MSH and Cafoong. MSH holds the entire issued share capital of MSBVI. Cafoong holds 53.86% of the common stock and all the Series A preferred stock of MSH and Messrs. Cheng Chung Hing and Cheng Tai Po personally hold an aggregate of 8.813% of the common stock of MSH at the Latest Practicable Date, which totally represent 75.114% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong, respectively.

(e) Long Position in common stock in an associated corporation – MSH

Name of director	Capacity	Numbers of shares of common stock of US\$0.001 each in MSH held			Percentage of common stock of MSH
		Direct interest	Deemed interest (Note 4)	Total interest	
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	312,500	3,437,501	3,750,001	58.75%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	250,000	3,437,501	3,687,501	57.78%

Note 4: These shares were directly and indirectly owned by Cafoong. Cafoong holds 53.86% of the common stock and all the Series A preferred stock of MSH at the Latest Practicable Date, which totally represent 69.24% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong, respectively.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and chief executive of the Company were interested, or were deemed to be interested in the interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short position which he is taken or deemed to have under such provision of the SFO); or (b) were required, pursuant to 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code of Securities Transactions by Directors of Listed Companies adopted by the Company to be notified to the Company and the Stock Exchange.

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company had any interest in any assets which have been, since 31 March 2005 (being the date to which the latest published audited accounts of the Company were made up), acquired or disposed of by or leased to any member of the Enlarged Group, or are proposed to be acquired or disposed of by or leased to any member of the Enlarged Group.

As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement, subsisting at the date of this circular, which is significant in relation to the business of the Enlarged Group.

SUBSTANTIAL SHAREHOLDERS

At the Latest Practicable Date, according to the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO showed that, other than the interests disclosed under the section headed "Directors' Interests and Short Positions

in Shares, Underlying Shares and Debentures” in respect of certain directors, the following shareholders had notified the Company of relevant interests in the share capital of the Company:

Name of shareholder	Nature of Interest	Number of Shares held		Percentage of issued share capital of the Company
		Long Position	Short Position	
MSBVI	Beneficial Owner	494,406,000	–	49.40%
MSH (Note 1)	Corporation	494,406,000	–	49.40%
Cafoong (Note 2)	Corporation	494,406,000	–	49.40%
Answay Resources Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Batfield Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Cuff International Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Kanfill Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Lanmore Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Lonton Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Maddison Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Provisional Investments Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Waykon Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Wollerton Ltd (Note 2)	Corporation	494,406,000	–	49.40%
Wytech Ltd (Note 2)	Corporation	494,406,000	–	49.40%

Note 1: This represents the deemed interest in 494,406,000 Shares held by MSBVI.

Note 2: This represents the deemed interest in 494,406,000 Shares held by MSBVI whereby Cafoong together with its wholly owned subsidiaries directly and indirectly holds 53.86% of the common stock and all the series A preferred stock MSH which, as at the Latest Practicable Date, represented an aggregate of 69.24% of the voting rights of MSH.

Save as disclosed above, so far as is known to the Directors or the chief executives of the Company, as at the Latest Practicable Date, no person (not being a Director or chief executive of the Company) had an interest or a short position in shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying voting rights to vote in all circumstances at general meetings of any other member of the Group or any options in respect of such capital.

COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or, so far as is known to them, any of their respective associates was interested in any business (apart from the Group’s business) which competes or is likely to compete either directly or indirectly with the Group’s business (as would be required to be disclosed under Rule 8.10 of the Listing Rules, if each of them were a controlling shareholder).

MATERIAL ADVERSE CHANGES

As at the Latest Practicable Date, the Directors are not aware of any material adverse change in the financial or trading position of the Group since 31 March 2005, the date to which the latest published consolidated audited accounts of the Group had been made up.

LITIGATION

On 2 December, 2003, Arcadia Jewellery Limited (“Arcadia”), an indirectly wholly-owned subsidiary of the Company, filed a lawsuit in Hong Kong against its former general manager, certain other parties (the “Defendants”) for breach of a Business Transfer Agreement, an Employment Agreement and a Consultancy Agreement (“Case 1”). Arcadia is claiming against the Defendants for, inter alia, account and inquiry; repayment of monies of at least HK\$832,000; damages; interest; a declaration that the Consultancy Agreement is null and void and Arcadia is entitled to rescind the same; a declaration that Arcadia is entitled to exercise its right under clause 16 of the Business Transfer Agreement (i.e. not to pay the balance of the purchase consideration of HK\$1,000,000); return of the purported consultancy fees or earnest money, the amount of which is to be assessed; costs and further or other relief.

On 22 December, 2003, this former general manager filed a lawsuit in Hong Kong against Arcadia in respect of the aforesaid Employment Agreement for monetary claim of approximately HK\$395,000 and also a declaration that the restraint of trade covenants under the aforesaid Employment Agreement are void and unenforceable. Afterwards, this former general manager agreed to transfer his monetary claim to the Labour Tribunal in Hong Kong and consolidate the rest of his case into Case 1. Although it is not possible to predict with certainty at the moment the outcome of these unresolved legal actions or pending claim or the amount possible loss or recovery, the directors do not believe that the resolution of these matters will have a material adverse effect on the Company’s financial position or results of operations.

Subject to the above, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and the Directors are not aware of any litigation or claim of material importance pending or threatened against any member of the Group or the Enlarged Group.

SERVICE CONTRACTS

As at the Latest Practicable Date, none of the Directors or proposed directors of the Company had any existing or proposed service contract with any member of the Enlarged Group (excluding contracts expiring or terminable by the employer within a year without payment of any compensation (other than statutory compensation)).

QUALIFICATION

The following are the qualifications of the experts who have made statements in this circular:

Name	Qualifications
DTZ Debenham Tie Leung DeHeng Law Firm Shenzhen Office	Registered Professional Surveyors Legal advisers on PRC laws

As at the Latest Practicable Date, none of DTZ Debenham Tie Leung or DeHeng Law Firm Shenzhen Office was beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and none had any interest, either directly or indirectly, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

CONSENTS

DTZ Debenham Tie Leung and DeHeng Law Firm Shenzhen Office have given and have not withdrawn their respective written consents to the issue of this circular with the inclusion of their letters, reports and/or summary of their opinions (as the case may be) and references to their names in the form and context in which they respectively appear herein.

MATERIAL CONTRACTS

The particulars of all material contracts (not being contracts entered into in the ordinary course of business) entered into by any member of the Enlarged Group within the two years immediately preceding the issue of this circular are set out as follows:

- (a) the SP Agreement.

MISCELLANEOUS

- (a) The English language text of this document shall prevail over the Chinese language text.
- (b) The Secretary of the Company is Au Moon Ying, Henry, who is also the Group Financial Controller and qualified accountant. He is a practicing Certified Public Accountant, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (c) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Au Moon Ying, Henry, who is also the Group Financial Controller and company secretary. He is a practicing Certified Public Accountant, a fellow member of the Association of Chartered Certified Accountants and an associate member of the Hong Kong Institute of Certified Public Accountants.
- (d) The Company's branch share registrar in Hong Kong is Secretaries Limited, Level 25, Three Pacific Place, 1 Queen's Road East, Hong Kong.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal business hours at the Company's principal place of business in Hong Kong at 21st Floor, Railway Plaza, 39 Chatham Road South, Tsim Sha Tsui, Kowloon, Hong Kong for a period of 14 days (excluding Saturdays) from the date of this circular:

- (a) the bye-laws of the Company;
- (b) the contract set out under the paragraph (a) headed "Material Contracts" in this Appendix;
- (c) the written approval dated 9 February 2006 of MSBVI, Cheng Chung Hing and Cheng Tai Po; and
- (d) the annual reports of the Company for each of the two financial years ended 31 March 2004 and 31 March 2005.