
IMPORTANT

If you are in any doubt about any of the contents of this circular or as to what action to take in relation to this circular, you should consult appropriate independent advisers to obtain independent professional advice.

If you have sold or transferred all your shares in Man Sang International Limited, you should at once hand this circular to the purchaser or the transferee or to the bank, licensed securities dealer or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this circular, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this circular.

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
6% OF THE TOTAL ISSUED SHARE CAPITAL OF
CHINA PEARLS AND JEWELLERY CITY HOLDINGS LIMITED
AND
ASSIGNMENT OF LOAN**

A letter from the board of the directors of Man Sang International Limited (the “**Company**”) is set out on pages 3 to 14 of this circular.

March 30, 2007

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DEFINITIONS

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

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| “Acquisition” | the acquisition of the Sale Shares and the Loan by the Purchaser under the Agreement |
| “Agreement” | the conditional share sale and purchase agreement dated March 8, 2007 entered into between the Purchaser and the Vendor in relation to the Acquisition |
| “Announcement” | the announcement of the Company dated March 8, 2007 |
| “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” | April 12, 2007 (or such other date as the parties to the Agreement may agree in writing) |
| “Consideration” | HK\$60,000,000 being the total consideration payable by the Purchaser to the Vendor for the Acquisition |
| “CP&J City” | China Pearls and Jewellery City, a large-scale, multi-purpose and modern international pearl and jewellery centre being developed by WOFE |
| “Director(s)” | director(s) including independent non-executive director(s) of the Company |
| “Enlarged Group” | the Group after completion of the Acquisition |
| “Group” | the Company and its subsidiaries |
| “HK Company” | China Pearls and Jewellery City Holdings Limited, a company incorporated in Hong Kong with limited liability |
| “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 enquiries, are not connected person(s) (as defined in the Listing Rules) to the Company |
| “Latest Practicable Date” | means March 28, 2007, 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 |

DEFINITIONS

| | |
|------------------|---|
| “Loan” | the aggregate amount of shareholder’s loan which is due and owing by the HK Company to the Vendor as at Completion which loan is interest free and repayable on demand and shall not be less than the aggregate of US\$1,200,000 and HK\$1,200,000 (which in aggregate is equivalent to approximately HK\$10,560,000) |
| “Purchaser” | Smartest Man Holdings Limited, a company incorporated in the British Virgin Islands with limited liability, an indirect wholly owned subsidiary of the Company |
| “PRC” | People’s Republic of China |
| “Sale Shares” | 6 shares of HK\$1.00 each in the issued share capital of the HK Company, representing 6% of the total issued share capital of the HK Company |
| “Shareholders” | shareholders of the Company |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “sq.m” | square meters |
| “Vendor” | Tiptop Sky Holdings Limited, a company incorporated in the British Virgin Islands with limited liability |
| “WOFE” | China Pearls and Jewellery International City Co. Ltd, 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 CP&J City |
| “HK\$” | Hong Kong dollars, the lawful currency of Hong Kong |
| “RMB” | Renminbi, the lawful currency of the PRC |
| “%” | per cent |

For the illustration purpose of this circular, unless otherwise specified, conversions of US dollars into Hong Kong dollars are based on the exchange rate of US\$1.00 to HK\$7.80.

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

Registered Office:

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

Independent non-executive Directors:

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

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

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

March 30, 2007

To Shareholders,

Dear Sir or Madam,

**MAJOR TRANSACTION
RELATING TO THE ACQUISITION OF
6% OF THE TOTAL ISSUED SHARE CAPITAL OF
CHINA PEARLS AND JEWELLERY CITY HOLDINGS LIMITED
AND
ASSIGNMENT OF LOAN**

1. INTRODUCTION

As disclosed in the Announcement, the Purchaser (an indirect wholly-owned subsidiary of the Company) and the Vendor entered into the Agreement on March 8, 2007 in relation to the sale of the Sale Shares and the assignment of Loan from the Vendor to the Purchaser for a total consideration of HK\$60,000,000. Completion of the Agreement is conditional upon the fulfillment of certain conditions precedent as set out in the paragraph headed “Conditions” below.

LETTER FROM THE BOARD

The Acquisition constitutes a major transaction on the part of the Company under Rule 14.06 of the Listing Rules and is, thus, subject to the approval of the Shareholders. Written approval of the Acquisition has been obtained from Man Sang International (B.V.I.) Limited, Mr. Cheng Chung Hing and Mr. Cheng Tai Po, which in aggregate hold approximately 67.48% 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, Mr. Cheng Chung Hing and Mr. Cheng Tai Po, is not an interested party in the Acquisition and their interests in the Acquisition 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. As such, pursuant to Rule 14.44 of the Listing Rules, the written approval provided by Man Sang International (B.V.I.) Limited, Mr. Cheng Chung Hing and Mr. Cheng Tai Po constitute a valid approval of the Acquisition and the Company will not be required to convene a physical meeting to approve the Acquisition.

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

2. THE AGREEMENT

2.1 Background

On March 8, 2007, the Purchaser (an indirect wholly owned subsidiary of the Company) and the Vendor entered into the Agreement in relation to the sale of the Sale Shares and the assignment of the Loan from the Vendor to the Purchaser.

2.2 Date

March 8, 2007

2.3 Parties

Purchaser: Smartest Man Holdings Limited, an indirect wholly-owned subsidiary of the Company

Vendor: Tiptop Sky Holdings Limited

The beneficial owner of the Vendor is Mr. Lin Xian Fu. The Directors confirm that to the best of their knowledge, information and belief after having made all reasonable inquiries, the Vendor and its associates (including its beneficial owner) are Independent Third Parties.

2.4 Interests to be acquired

Pursuant to the Agreement, the Vendor has agreed to sell the Sale Shares and assign the Loan to the Purchaser.

2.5 Conditions

Completion of the Agreement is conditional upon:

- (i) the warranties given by the Vendor remaining true and accurate and not misleading at Completion as given as of the date of the Agreement and as of the Completion Date and as if given at all times between the date of the Agreement and the Completion Date;

LETTER FROM THE BOARD

- (ii) all necessary contents required to be given by third parties to the Vendor for the consummation by the Vendor of the transactions contemplated under the 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 Sale Shares and the assignment of the Loan and no applicable statute, regulation or decision which would prohibit, restrict or materially delay the sale and purchase of the Sale Shares and the assignment of the Loan after Completion having been proposed, enacted or taken by governmental or official authorities;
- (iii) 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 Agreement; and
- (iv) the execution of a written approval by Man Sang International (B.V.I.), Limited. Mr. Cheng Chung Hing and Mr. Cheng Tai Po approving and/or ratifying the Agreement and the transactions contemplated therein including but not limited to the sale and purchase of the Sale Shares and the assignment of the Loan pursuant to Rule 14.44 of the Listing Rules or if required under Rule 14.67(4)(a) of the Listing Rules, the passing of an ordinary resolution by the shareholders of the Company at a special general meeting by way of a poll (if required) to approve this Agreement and the transactions contemplated herein including but not limited to the sale and purchase of the Sale Shares and the assignment of the Loan.

The Purchaser may in its absolute discretion at any time waive in writing any of the conditions as set out in paragraphs (i) to (iv) 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 (iv) 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.

In the event that any of the conditions is not fulfilled or waived prior to the Completion Date, then the Purchaser shall not be bound to proceed with the purchase of the Sale Share and the Loan and the Agreement shall cease to have any effect save in respect of claims arising out of any antecedent breach of the Agreement.

Condition (iv) above has been fulfilled as Man Sang International (B.V.I.) Limited. Mr. Cheng Chung Hing and Mr. Cheng Tai Po have executed a written approval to approve and/or ratify the Agreement and the transactions contemplated therein. Save as disclosed above, none of the conditions set out above has been fulfilled as at the Latest Practicable Date.

LETTER FROM THE BOARD

2.6 Consideration

The total consideration for the sale of the Sale Shares and the assignment of the Loan is HK\$60,000,000 and shall be payable in cash by the Purchaser on Completion Date.

The Consideration is intended to be funded by internal resources of the Group.

The Consideration was arrived at after arm's length negotiation between the parties to the Agreement. The consideration for (a) the Sale Shares (being the consideration of HK\$49,440,000 net of the Loan as at the Latest Practicable Date) was mainly made with reference to the estimated fair market value of the assets of the HK Company, i.e. CP&J City; and (b) the Loan represents the exact principal amount of the Loan. In determining the fair market value of CP&J City, the Vendor and the Purchaser took into account the future benefits associated with the Acquisition due to the booming pearl and jewellery industry in the East region of the PRC. As the fair market value of CP&J City was arrived at after arm's length negotiation between the Vendor and the Purchaser, the Directors consider that the market value of CP&J City is a fair representation of the consideration for the Sale Shares. In addition, the Company is currently interested in 49% of the total issued share capital of the HK Company. Upon Completion, the Company will be interested in 55% of the issued share capital of the HK Company which will become a subsidiary of the Company. Accordingly, the acquisition of the 6% of the issued share capital of the HK Company will also benefit the Company from gaining the controlling rights and executive power over the HK Company as well as enhancing the future profitability of the Company. Such benefits to be brought to the Company are also reflected in the consideration for the Sale Shares.

2.7 Completion

Completion shall take place on the Completion Date.

The Purchaser is an indirect wholly-owned subsidiary of the Company. As at the Latest Practicable Date, the Purchaser holds 49% of the issued share capital of the HK Company. The Company in turn is interested in 49% of the issued share capital of the HK Company.

The Vendor currently holds 11% of the issued share capital of the HK Company. Upon Completion, the Company and the Vendor will be interested in 55% and 5% of the issued share capital of the HK Company respectively.

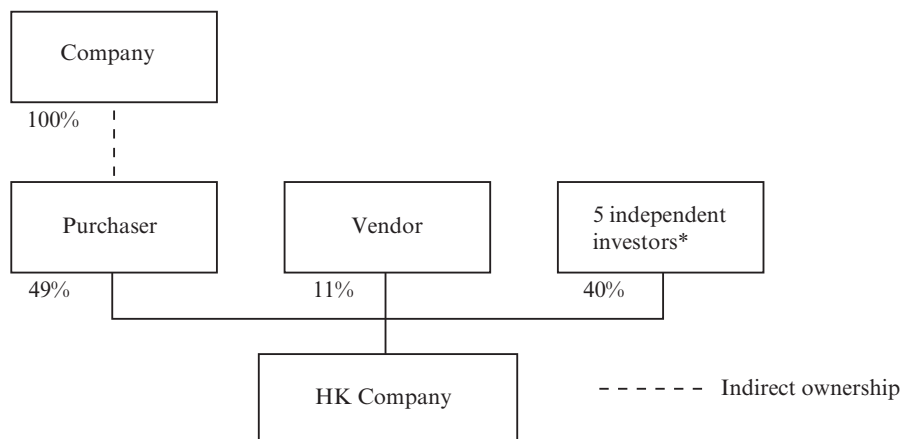
Therefore, upon Completion, the HK Company will become a subsidiary of the Company and the results of the HK Company will be consolidated into the accounts of the Company.

LETTER FROM THE BOARD

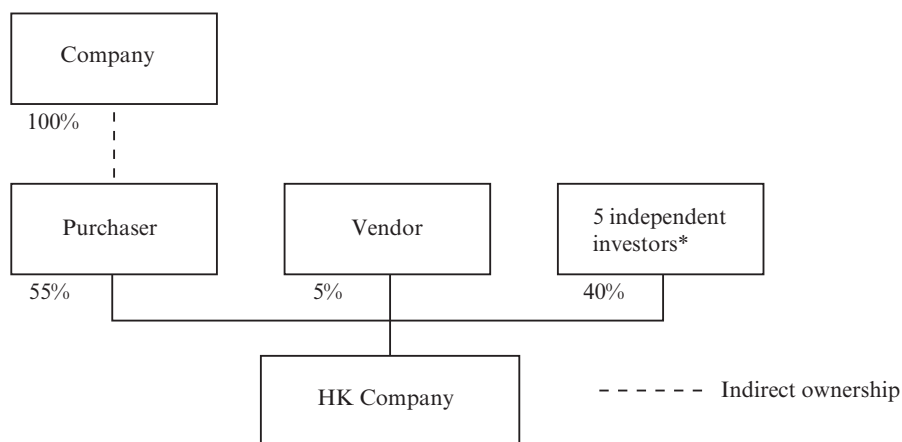
3. SHAREHOLDING STRUCTURES OF THE HK COMPANY BEFORE AND AFTER THE ACQUISITION

The Shareholding structures of the HK Company before and after the Acquisition are as follows:

Shareholding structure before the Acquisition:



Shareholding structure after the Acquisition:



* The 5 independent investors are Hong Kong East Pearl Group Co., Limited, Grace Pearl (H.K.) Company Limited, Shanshui Pearl Corporation (Hong Kong) Co. Limited, Tears of Angel Pearl (Hong Kong) Co., Limited and Shanxiah Pearl (H.K.) Company Limited, which are all Independent Third Parties.

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4. INFORMATION ON THE VENDOR

The Vendor is a company established in the British Virgin Islands with limited liability. The beneficial owner of the Vendor is Mr. Lin Xian Fu. It has no business activity save for being beneficially interested in 11% of the issued share capital of the HK Company.

To the best of the knowledge, information and belief of the Directors after having made all reasonable inquiries, the Vendor and its associates (including its beneficial owner) are Independent Third Parties.

5. INFORMATION ON THE HK COMPANY

The HK Company is an investment holding company incorporated in Hong Kong with limited liability on January 18, 2006. It has no business activity save for being beneficially interested in 100% equity interest in WOFE which is a wholly-owned foreign enterprise established in the PRC for the purpose of developing and managing a large-scale, multi-purpose and modern international pearl and jewellery centre – CP&J City. The audited consolidated net liability of the HK Company and its subsidiary amounted to approximately HK\$11,106,000 as at December 31, 2006. The audited consolidated net loss of the HK Company and its subsidiary was approximately HK\$15,379,000 for the period since the date of incorporation of the HK Company and ended on December 31, 2006. CP&J City is still under construction and development, hence no income or revenue has been generated. Further, shareholders loan and bank loans have been raised by the WOFE to finance the construction of CP&J City. As a result, the HK Company experienced a net loss for the period since the date of incorporation of the HK Company and ended on December 31, 2006 and has a net liability as at December 31, 2006. It is expected that the construction of CP&J City will complete in the last quarter of 2008. As at the Latest Practicable Date, there is no scheduled date of completion in respect of the construction of CP&J City. The estimated development cost of the HK Company is approximately RMB217,021,000. The development cost is intended to be funded by internal resources of the Group.

Man Sang Enterprise Ltd., a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement to acquire the entire issued share capital of the Purchaser from Mr. Cheung Yip Shun on February 10, 2006 and such acquisition was completed on February 15, 2006. Please refer to the announcement dated February 10, 2006 and circular dated March 31, 2006 issued by the Company for details of such acquisition. The sole asset of the Purchaser is its beneficial interest of holding 49% in the share capital of the HK Company. Accordingly, the Company, through the Purchaser, is currently indirectly interested in 49% of the issued share capital of the HK Company. Upon completion of the Acquisition, the Company will be indirectly interested in 55% of the issued share capital of the HK Company and the HK Company will become a subsidiary of the Company. The financial results and positions of the HK Company will therefore be consolidated into the accounts of the Company in accordance with Hong Kong Accounting Standards issued by the Hong Kong Institute of Certified Public Accountants.

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

CP&J City is located in Shanxiahui Town, Zhuji Municipal, Zhejiang Province, the PRC with a total site area of 410,166.80 sq.m. Zhuji Municipal is currently one of the largest fresh water pearl nurturing and trading centres in the PRC.

LETTER FROM THE BOARD

6. REASONS FOR AND BENEFITS OF THE ACQUISITION

The Group is principally engaged in the purchasing, processing, assembling, merchandising, whole sale and distribution of pearls and jewellery products. The Group also 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 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 CP&J 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 the Group has been engaged in pearl business for years, the Acquisition will enable the Group to gain access to more customers and to become one of the market leaders in pearl business in the future. Thus, to adhere to this business intent, the Directors consider that the Acquisition will enable the Company to consolidate its interests in the HK Company and to facilitate further co-operative opportunities between the Group and other shareholders of the HK Company.

The Directors consider that the terms of the Agreement have been negotiated on an arm's length basis, and are fair and reasonable and in the best interests of the Company and its shareholders as a whole.

7. LISTING RULES IMPLICATIONS

The Acquisition constitutes a major transaction on the part of the Company under Rule 14.06 of the Listing Rules.

Written approval of the Acquisition has been obtained from Man Sang International (B.V.I.) Limited, Mr. Cheng Chung Hing and Mr. Cheng Tai Po, which hold approximately 67.48% of the entire issued share capital of the Company as at the Latest Practicable Date. The entire issued share capital of Man Sang International (B.V.I.) Limited is held by Man Sang Holdings, Inc., the latter being a company whose shares are listed on The American Stock Exchange. Mr. Cheng Chung Hing and Mr. Cheng Tai Po collectively hold approximately 72.50% of the voting rights of Man Sang Holding, Inc.. Each of Man Sang International (B.V.I.) Limited and its ultimate beneficial owners, Mr. Cheng Chung Hing and Mr. Cheng Tai Po, is not an interested party in the Acquisition and their interests in the Acquisition 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. As such, pursuant to Rule 14.44 of the Listing Rules, the written approval provided by Man Sang International (B.V.I.) Limited, Mr. Cheng Chung Hing and Mr. Cheng Tai Po constitutes a valid approval of the Acquisition and the Company will not be required to convene a physical meeting to approve the Acquisition.

LETTER FROM THE BOARD

8. FINANCIAL AND TRADING PROSPECT OF THE HK COMPANY AND THE GROUP

8.1 THE HK COMPANY

The HK Company is an investment holding company incorporated in Hong Kong with limited liability on January 18, 2006. It has no business activity save for being beneficially interested in 100% equity interest in WOFE which is a wholly-owned foreign enterprise established in the PRC for the purpose of developing and managing a large-scale, multi-purpose and modern international pearl and jewellery centre – CP&J City. CP&J City is still under construction and development, hence no income or revenue has been generated. Up to the Latest Practicable Date, the expenditures incurred by the HK Company mainly relate to administrative and promotion expenses. As a result, the HK Company has a loss incurred from the date of incorporation, on January 18, 2006, to the period ended December 31, 2006 which amounts to approximately HK\$15 million. As at December 31, 2006, the major asset of the HK Company is CP&J City which is under development and has a value of approximately HK\$153 million. In addition, the majority of working capital is represented by cash and bank, amounting to HK\$123 million. The source of working capital is supported by the internal funding from shareholders' capital and loans and the external funding by the bank borrowings.

8.2 THE GROUP

Business Review

For the six months ended September 30, 2006, the Group recorded a turnover of approximately HK\$193.3 million, representing a decrease of 8.7% as compared with the same period last year. Profit attributable to shareholders was approximately HK\$24.7 million, 3.1% higher than last year's HK\$24.0 million. The increase was mainly attributable to the improved gross profit margin for the period.

The decrease in the Group's turnover was mainly due to the decrease in sales of South Sea pearls. High oil price together with fluctuating gold price affected market demand and customers were conservative in placing orders. The decrease was compensated by an increase in sales of assembled finished pearl and jewellery products. Despite a decline in turnover of the Group in the first half year of fiscal year 2007, we received good responses from buyers who attended the Hong Kong Jewellery and Watch Fair in September 2006.

Of the total turnover in the first six months, sales of assembled pearl and jewellery finished products accounted for 49.4% while that of South Sea pearls came second at 41.1%. Sales to European customers grew in the first six months while sales to US customers dropped when compared with the same period last year.

Gross Profit

Gross profit margin had slightly increased from 27.7% to 30.9% when compared with the same period last year. It was mainly due to the improvement in the production efficiency in the wake of the enhanced management and cost control measures.

LETTER FROM THE BOARD

Operating Costs and Expenses

Selling and administrative expenses increased by 8.0% as compared with the same period last year. An one-off share-based payment of HK\$4.5 million associated with the grant of share options by the Company was charged for the period.

Prospects

Heeding existing market situations, the Group will continue to exercise prudent cost control and, at the same time, seek to expand its market share and customer base. We will strive achieving our performance targets by ensuring that our products are innovatively designed and of the highest quality.

In March 2006, the Group invested in the China Pearls and Jewellery City project in Zhuji, Zhejiang province in the PRC. The investment amount has been fully paid and the project has obtained the land use rights certificate for the development of project. The construction work has been carried out after receiving the approval for commencement of construction work in September 2006. We expect that the project to be completed in the last quarter of 2008.

With the management and staff dedicated to helping the Group achieve its goals, we are confident of the performance of our business in the years to come.

Liquidity and Financial Resources

Liquidity

At September 30, 2006, the Group had a working capital of HK\$340.6 million, which included a cash balance of HK\$223.1 million, compared to the working capital of HK\$384.6 million, which included a cash balance of HK\$286.6 million at March 31, 2006. The decrease in working capital was mainly due to an increase in advance to an associate of HK\$84.8 million but being offset by the increase in trade and other receivables by HK\$33.7 million.

The Group had available working capital facilities of HK\$105.0 million in total with various banks at September 30, 2006. Such banking facilities include letter of credit arrangements, import loans, overdraft and other facilities commonly used in jewellery business. All such banking facilities bear interest at floating rates generally offered by banks in Hong Kong and are subject to periodic review. At September 30, 2006, the Group had a zero balance on each of these credit facilities.

Capital Structure

At September 30, 2006, the Group's total shareholders' funds amounted to HK\$638.4 million, compared with HK\$608.4 million at March 31, 2006. The Group's gearing ratio was zero with no outstanding debts at September 30, 2006 and March 31, 2006. The gearing ratio is computed by dividing total debts over capital and reserves.

LETTER FROM THE BOARD

For the six months ended September 30, 2006, most of the Group's transactions were denominated in either US dollars or Hong Kong dollars. Since the Hong Kong dollar remained "pegged" to the US dollar at a consistent rate, in this respect, the Group was not exposed to any significant foreign exchange risk, and as a result of which, the Group has not adopted any hedging measures.

9. POSSIBLE FINANCIAL EFFECT OF THE ACQUISITION

After Completion, the HK Company will become a subsidiary of the Company, and the HK Company will be consolidated into the Company's accounts.

Though the construction of CP&J City has commenced, CP&J City is still under development and has not been launched for sales and/or leasing. Accordingly, save for that CP&J City being revalued by DTZ Debenham Tie Leung Limited as approximately RMB295 million (equivalent to HK\$294 million) for the reason that it is still under development, there is a fair value adjustment of the properties under development with HK\$70 million credited to the reserve of the Group.

9.1 Total assets

Based on the unaudited pro forma combined balance sheet of the Enlarged Group (as set out in Appendix III to this circular), the Group's total assets will be increased by approximately HK\$349 million, of which approximately HK\$45 million represents the goodwill arising from the Acquisition, and the rest is increased by the assets of the HK Company.

9.2 Total liabilities

Based on the unaudited pro forma combined balance sheet of the Enlarged Group (as set out in Appendix III to this circular), the Group's total liabilities will be increased by approximately HK\$190 million, of which approximately HK\$93 million represents the payables of the HK Company, HK\$47 million represents the deferred tax liabilities recognised in respect of fair value adjustments and approximately HK\$50 million represents the bank borrowings of the HK Company.

9.3 Net assets

Based on the unaudited pro forma combined balance sheet of the Enlarged Group (as set out in Appendix III to this circular), the unaudited pro forma net assets of the Enlarged Group would be approximately HK\$797 million.

Please refer to the headings "Total assets" and "Total liabilities" under this section for explanation of slight increase in the pro forma net assets of the Enlarged Group.

9.4 Earnings

CP&J City is being under construction and development. Hence, no income or revenue has been generated. As CP&J City has not been launched for sales and/or leasing, it is far remote to pre-determine the earnings to be generated. As such, there is no material effect on the earnings of the Group.

LETTER FROM THE BOARD

9.5 Gearing

Based on the unaudited pro forma total bank borrowings of the Enlarged Group of approximately HK\$50 million and unaudited pro forma net assets of approximately HK\$797 million, the pro forma gearing ratio of the Enlarged Group was approximately 6%.

9.6 Cash and cash equivalent

Based on the unaudited pro forma combined balance sheet of the Enlarged Group (as set out in Appendix III to this circular), the unaudited pro forma cash and cash equivalent position of the Enlarged Group would be approximately HK\$286 million. The increase in pro forma cash and cash equivalent was mainly attributable to the cash and cash equivalent of the HK Company.

10. WORKING CAPITAL

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

11. STATEMENT OF INDEBTEDNESS

11.1 Borrowings

As at February 28, 2007, the Group had available banking facilities of HK\$105 million in total with various banks and the Group did not utilize these banking facilities.

Save as mentioned above or as otherwise disclosed herein, as at February 28, 2007, the Group did not have other mortgages, charges, debentures, loan capital, bank overdrafts, loans, guarantees or other material contingent liabilities.

The Directors confirm that there is no significant change in indebtedness of the Group as at February 28, 2007 up to the Latest Practicable Date.

11.2 Pledge of assets

As at February 28, 2007, the Group's pledged leasehold land and buildings amounted to approximately HK\$91 million.

11.3 Capital commitments

As at February 28, 2007, the Group's capital commitments amounted to approximately HK\$1.3 million.

LETTER FROM THE BOARD

12. DIRECTORS VIEWS

As the terms of the Agreement have been negotiated on an arm's length basis and the Acquisition is expected to attribute to the future success of the Group by widening the Group's scope of business, generating satisfactory return to the Group, diversifying the Group's property portfolio and enhancing the Group's overall pearl business, the Directors believe that the Acquisition is fair and reasonable and is in the interests of the Group and the Company's shareholders as a whole.

13. ADDITIONAL INFORMATION

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

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

The following is the text of a report, prepared for the sole purpose of inclusion in this circular, received from the independent reporting accountants, Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, Hong Kong.

Moores Rowland Mazars

摩斯倫 · 馬賽會計師事務所

March 30, 2007

The Board of Directors
Man Sang International Limited

Dear Sirs,

Introduction

We set out below our report on the financial information regarding China Pearls and Jewellery City Holdings Limited (“the Company”) and its subsidiary, (hereinafter collectively referred to as “the Group”) including the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the period from January 18, 2006 (date of incorporation) to December 31, 2006 (the “Relevant Period”), and the consolidated balance sheet as at December 31, 2006, together with a summary of significant accounting policies and notes thereto (“Financial Information”), prepared for the basis set out in Note 1 below, for inclusion in the circular (“Circular”) of Man Sang International Limited (“MSIL”) dated March 30, 2007 in connection with the proposed acquisition of 6% of total issued share capital of the Company and assignment of loan.

The Company was incorporated in Hong Kong on January 18, 2006 with limited liability under the Hong Kong Companies Ordinance. The registered office of the Company is located at 10th Floor, Chiyu Bank Building, 78 Des Voeux Road, Central, Hong Kong. During the Relevant Period, the principal activity of the Company is investment holding.

As at the date of this report, the Company is an associate of MSIL. No audited financial statements have been prepared by the Company since its date of incorporation.

Basis of preparation

The Financial Information has been prepared by the directors of the Company based on the unaudited management accounts for the Relevant Period. The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards which include individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong.

Directors' responsibility for the Financial Information

The directors of the Company are responsible for the preparation and the true and fair presentation of the Financial Information in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants. This responsibility includes designing, implementing and maintaining internal controls relevant to the preparation and the true and fair presentation of Financial Information that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Reporting accountants' responsibility

Our responsibility is to express an opinion on the Financial Information based on our audit. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the Financial Information is free from material misstatement. We have also carried out additional procedures as necessary in accordance with Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the Financial Information. The procedures selected depend on the reporting accountants' judgment, including the assessment of the risks of material misstatement of the Financial Information, whether due to fraud or error. In making those risk assessments, the reporting accountants consider internal control relevant to the Group's preparation and true and fair presentation of the Financial Information in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the Financial Information.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, for the purpose of this report, the Financial Information gives a true and fair view of the state of affairs of the Company and the Group as at December 31, 2006 and of the results and cash flows of the Group for the Relevant Period then ended in accordance with Hong Kong Financial Reporting Standards.

Without qualifying our opinion we draw attention to note 1 to the Financial Information concerning the adoption of going concern basis on which the Financial Information have been prepared. At the balance sheet date, the Group had net current liabilities and capital deficiency of HK\$134,348,000 and HK\$11,106,000 respectively. The validity of the going concern basis depends on the Group's future profitable operation and the continuing financial support from the shareholders. The shareholders have confirmed in writing their intention to provide continuing financial support to the Group. The Financial Information does not include any adjustments that would result from a failure to obtain the necessary finance. We consider that appropriate disclosures have been made in this respect.

A. FINANCIAL INFORMATION

Consolidated Income Statement of the Group

| | <i>Note</i> | Period from January 18, 2006 (date of incorporation) to December 31, 2006 HK\$ '000 |
|---|-------------|--|
| Turnover | <i>4</i> | — |
| Other income | <i>5</i> | 1,842 |
| Administrative expenses | | <u>(17,221)</u> |
| Loss before taxation | <i>6</i> | (15,379) |
| Taxation | <i>8</i> | <u>—</u> |
| Loss for the period attributable to shareholders | <i>6</i> | <u><u>(15,379)</u></u> |
| Dividend | <i>9</i> | <u>—</u> |
| Loss per share | <i>17</i> | <u><u>(154)</u></u> |

The accompanying notes form an integral part of the Financial Information.

Consolidated Balance Sheet of the Group

| | <i>Note</i> | As at December 31, 2006 HK\$'000 |
|--|-------------|---|
| Non-current assets | | |
| Property, plant and equipment | <i>10</i> | <u>153,137</u> |
| Current assets | | |
| Prepayments, deposits and other receivables | <i>12</i> | 31,485 |
| Cash and cash equivalents | <i>13</i> | <u>123,538</u> |
| | | <u>155,023</u> |
| Current liabilities | | |
| Accrued charges and other payables | <i>14</i> | 269,441 |
| Bank borrowings (secured) | <i>15</i> | <u>19,930</u> |
| | | <u>289,371</u> |
| Net current liabilities | | <u>(134,348)</u> |
| Total assets less current liabilities | | <u>18,789</u> |
| Non-current liabilities | | |
| Long-term bank borrowings (secured) | <i>15</i> | <u>29,895</u> |
| Net liabilities | | <u><u>(11,106)</u></u> |
| Capital and reserves | | |
| Share capital | <i>16</i> | — |
| Reserves | | <u>(11,106)</u> |
| Total equity | | <u><u>(11,106)</u></u> |

The accompanying notes form an integral part of the Financial Information.

Balance Sheet of the Company

| | <i>Note</i> | As at December 31, 2006 <i>HK\$ '000</i> |
|---|-------------|--|
| Non-current assets | | |
| Property, plant and equipment | <i>10</i> | 12 |
| Interest in a subsidiary | <i>11</i> | 157,400 |
| | | <u>157,412</u> |
| Current assets | | |
| Prepayments, deposits and other receivables | <i>12</i> | 43 |
| Cash and cash equivalents | <i>13</i> | 18,040 |
| | | <u>18,083</u> |
| Current liabilities | | |
| Accrued charges and other payables | <i>14</i> | 176,196 |
| Net current liabilities | | <u>(158,113)</u> |
| Net liabilities | | <u>(701)</u> |
| Capital and reserves | | |
| Share capital | <i>16</i> | — |
| Accumulated losses | | (701) |
| Total equity | | <u>(701)</u> |

The accompanying notes form an integral part of the Financial Information.

Consolidated Statement of Changes in Equity of the Group*For the period from January 18, 2006 (date of incorporation) to December 31, 2006*

| | <i>Note</i> | Share capital <i>HK\$'000</i> | Accumulated losses <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------|---|--|---|---------------------------------|
| Issue of share capital | <i>16</i> | — | — | — | — |
| Exchange differences arising from translation of financial information of operations outside Hong Kong | | — | — | 4,273 | 4,273 |
| Loss for the period | | — | (15,379) | — | (15,379) |
| At December 31, 2006 | | <u>—</u> | <u>(15,379)</u> | <u>4,273</u> | <u>(11,106)</u> |

The accompanying notes form an integral part of the Financial Information.

Consolidated Cash Flow Statement of the Group

| | <i>Note</i> | Period from January 18, 2006 (date of incorporation) to December 31, 2006 <i>HK\$ '000</i> |
|---|-------------|--|
| OPERATING ACTIVITIES | | |
| Cash generated from operations | 18 | 43,859 |
| Net cash from operating activities | | <u>43,859</u> |
| INVESTING ACTIVITIES | | |
| Issue of share capital | | — |
| Purchase of property, plant and equipment | | (149,606) |
| Interest received | | 1,841 |
| Net cash used in investing activities | | <u>(147,765)</u> |
| FINANCING ACTIVITIES | | |
| New bank loans raised | | 49,285 |
| Advances from shareholders | | 176,000 |
| Advance from a related company | | 195 |
| Net cash from financing activities | | <u>225,480</u> |
| Net increase in cash and cash equivalents | | <u>121,574</u> |
| Cash and cash equivalents at beginning of period | | — |
| Effect of foreign exchange rate changes | | 1,964 |
| Cash and cash equivalents at the end of the period | 13 | <u><u>123,538</u></u> |

The accompanying notes form an integral part of the Financial Information.

Notes to the Financial Information**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Financial Information has been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. The Financial Information also complies with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The Financial Information has been prepared in conformity with the principles applicable to a going concern. The applicability of these principles is dependent upon continued availability of adequate finance or attaining profitable operations in the future in view of the excess of current liabilities over current assets. The shareholders have confirmed its intention to make available adequate funds to the Group as and when required to maintain the Group as a going concern.

A summary of the principal accounting policies adopted by the Group is set out below.

(a) Basis of measurement

The measurement basis used in the preparation of the Financial Information is historical cost.

(b) Basis of consolidation

The Financial Information incorporates the financial statements of the Company and its subsidiary made up to December 31, 2006.

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

All intra-group transactions and balances and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized profits but only to the extent that there is no evidence of impairment.

(c) Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In balance sheet of the Company, an investment in a subsidiary is stated at cost less impairment loss. The carrying amount of the investment is reduced to its recoverable amount on an individual basis. Results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(d) Property, plant and equipment

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset’s carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the period in which they are incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(d) Property, plant and equipment (continued)**

Depreciation is provided to write off the cost less accumulated impairment losses of property, plant and equipment, other than construction in progress, over their estimated useful lives as set out below from the date on which they are available for use and after taking into account their estimated residual values, using the straight-line method. Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis and depreciated separately:

| | |
|-----------------------------------|-----|
| Buildings | 50% |
| Furniture, fixtures and equipment | 25% |
| Motor vehicles | 25% |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising from the disposal or retirement of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is taken to the income statement.

Construction in progress is stated at cost less accumulated impairment losses. Costs include all construction costs, other direct costs, including borrowing costs capitalized, attributable to such projects, and land lease payments which are up-front payments to acquire medium-term interests in lessee-occupied properties. Construction in progress is not depreciated until the completion of construction and available for use. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

(e) Impairment of assets

At each balance sheet date, the Group reviews internal and external sources of information to determine whether its property, plant and equipment and investment in subsidiary has suffered an impairment loss or impairment loss previously recognized no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as expense immediately.

A reversal of impairment loss is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognized in prior years. Reversal of impairment loss is recognized as income immediately.

(f) Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instruments and on a trade date basis. A financial asset is derecognized when the Group's contractual rights to future cash flows from the financial asset expire or when the Group transfers the contractual rights to future cash flows to a third party. A financial liability is derecognized only when the liability is extinguished.

Other receivables

Other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses except where the receivables are interest-free loans made to related parties without any fixed repayment term, or the effect of discount would be insignificant, in such cases, the receivables are stated at cost less impairment losses.

At each balance sheet date, the Group assesses whether there is objective evidence that other receivables assets are impaired. The impairment loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flow discounted at the financial asset's original effective interest rate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(f) Financial instruments (continued)***Financial liabilities*

The Group's financial liabilities include other payables and bank borrowings. All financial liabilities except for derivatives are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method, unless the effect of discounting would be insignificant, in which case they are stated at cost.

(g) Cash and cash equivalents

For the purpose of the cash flow statement, cash equivalents represent short-term highly liquid investments which are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(h) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group and when the revenue and cost, if applicable, can be measured reliably. The Group derived no revenue during the period.

(i) Foreign currency translation*(i) Functional and presentation currency*

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The Financial Information is presented in Hong Kong dollars, which is functional and presentation currency of the Company.

(ii) Transactions and balances

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

(iii) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates;
- all resulting exchange differences are transferred to the Group's translation reserve and recognized as a separate component of equity. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

(j) Provisions

Provisions are recognized when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of obligation can be made. Expenditures for which a provision has been recognized are charged against the related provision in the year in which the expenditures are incurred. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount provided is the present value of the expenditures expected to be required to settle the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(k) Taxation**

The charge for current income tax is based on the results for the period as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilized.

(l) 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.

(m) Related parties

A party is related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate of the Group;
- (iii) the party is a joint venture in which the Group is a venturer;
- (iv) the party is a member of the key management personnel of the Group or its shareholders;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

(n) Retirement benefits scheme

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

(o) Borrowing costs

Borrowing costs incurred, net of any investment income on the temporary investment of the specific borrowings, that are directly attributable to the acquisition, construction or production of qualifying assets, i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalized as part of the cost of those assets. Capitalization of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized as an expense in the period in which they are incurred.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**(p) Future changes in HKFRSs**

At the date of the Circular, the Group has not early adopted the new/revised standards and interpretations issued by HKICPA that are not yet effective for the current period. The directors anticipate that the adoption of these new HKFRS in the future periods will have no material impact on the result of the Group.

2. FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise cash and short term time deposits and balances with the shareholders. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk and liquidity risk. The Group's directors review and agree policies for managing each of these risks and they are summarized below.

Credit risk

The credit risk of the Group's financial assets, which mainly comprise deposits in financial institutions, arises from default of the counterparties, with a maximum exposure equal to the carrying amount of these instruments. However, the directors of the Group are of the opinion that there would not be any credit risk for the financial assets.

Liquidity risk

At the balance sheet date, the Group obtained bank borrowings and loans from its shareholders. The Group has not experienced any difficulty in obtaining bank borrowings and continuous financial support from the shareholders, and hence the directors of the Group are of the opinion that liquidity risk of the Group is not significant.

Foreign currency risk

No material currency risk is identified as no revenue is generated during the construction and development stage. In addition, the majority of the payables and other borrowings are denominated in local reporting currency. The Group currently does not have a foreign currency hedging policy. However, the management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

Fair values of financial assets and financial liabilities

The directors of the Group consider that the carrying amounts of the financial assets and financial liabilities reported in the balance sheets of the Group approximate to their respective fair values.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

Critical accounting estimates and assumptions

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

Impairment of investment and receivables

The Group assesses annually if investment in a subsidiary has suffered any impairment in accordance with HKAS 36 and follows the guidance of HKAS 39 in determining whether amount due from the subsidiary is impaired. Details of the approach are stated in the respective accounting policies. The assessment requires an estimation of future cash flows, including expected dividends, from the assets and the selection of appropriate discount rates. Future changes in financial performance and position of these entities would affect the estimation of impairment loss and cause the adjustments of their carrying amounts.

4. TURNOVER

The principal activity of the Company is investment holdings and the principal activities of the subsidiary in the People's Republic of China (the "PRC") are set out in note 11 to the Financial Information. The Group derived no revenue during the period.

5. OTHER INCOME

**Period from
January 18,
2006 (date of
incorporation)
to December 31,
2006
HK\$'000**

Bank interest income

1,842

6. LOSS BEFORE TAXATION

This is stated after charging:

**Period from
January 18,
2006 (date of
incorporation)
to December 31,
2006
HK\$'000**

(a) Staff costs (including directors' emoluments)

Salaries, wages and other benefits

1,731

Contributions to defined contribution retirement plans

17

1,748

(b) Other items

Auditors' remuneration

9

Depreciation

492

Exchange loss, net

738

Operating lease payments on premises

137

(c) Loss attributable to shareholders of the Company

The consolidated loss attributable to shareholders of the Company includes a loss of HK\$701,000 which has been dealt with in the financial statements of the Company.

7. EMPLOYEE BENEFIT EXPENSES

(a) Directors' emoluments

The remuneration of every director of the Company for the Relevant Period is set out below:

| Name of director | Salaries and other allowances <i>HK\$ '000</i> | Director's fee <i>HK\$ '000</i> | Retirement benefit contributions <i>HK\$ '000</i> | Total <i>HK\$ '000</i> |
|----------------------------|--|------------------------------------|--|---------------------------|
| Cheung Yip Shun (i) | — | — | — | — |
| Lin Xian Fu (ii) | 87 | — | — | 87 |
| Qi Niao Ding (ii) | — | — | — | — |
| Chen Xia Ying (ii) | — | — | — | — |
| Ruan Tie Jun (iii) | — | — | — | — |
| Zhan Wei Jian (iii) | — | — | — | — |
| Wang Li Miao (iii) | — | — | — | — |
| Hung Kwok Wing (iv) | — | — | — | — |
| Au Moon Ying Henry (v) | — | — | — | — |
| Yan Sau Man Amy (iv) | — | — | — | — |
| Cheng Tai Po (iv) | — | — | — | — |
| Cheng Chung Hing (iv) | — | — | — | — |
| Pak Wai Keung, Martin (vi) | — | — | — | — |
| | <u>87</u> | <u>—</u> | <u>—</u> | <u>87</u> |

(i) Appointed on January 18, 2006 and resigned on February 10, 2006

(ii) Appointed on January 18, 2006

(iii) Appointed on February 6, 2006

(iv) Appointed on February 10, 2006

(v) Appointed on February 10, 2006 and resigned August 18, 2006

(vi) Appointed on August 28, 2006

(b) Five highest paid individuals

The aggregate emoluments of the five highest paid individuals are as follows:

| | Period from January 18, 2006 (date of incorporation) to December 31, 2006 <i>HK\$ '000</i> |
|----------------------------------|--|
| Salaries and other allowances | 923 |
| Retirement benefit contributions | <u>11</u> |
| | <u>934</u> |

8. TAXATION

Hong Kong Profits Tax and Income tax in the PRC have not been provided as the Company and its subsidiary in the PRC had no assessable profit for the Relevant Period.

Reconciliation of tax expense

| | Period from January 18, 2006 (date of incorporation) to December 31, 2006 HK\$'000 |
|--|---|
| Loss before tax | (15,379) |
| Income tax at applicable tax rate of 17.5% | (2,691) |
| Effect of different tax rates of subsidiary operating in other jurisdictions | (2,275) |
| Tax effect of temporary difference not recognised | (63) |
| Tax effect of tax loss not recognised | 5,029 |
| Tax expense for the period | — |

The applicable tax rate is the Hong Kong Profits Tax rate of 17.5%.

At balance sheet date, the Group has not recognized deferred tax assets in respect of deductible temporary difference of HK\$14,678,000. Deferred tax assets have not been recognized in respect of deductible temporary difference because it is not probable that future taxable profit will be available against which the Group can utilize the benefits therefrom. The deductible temporary difference will be utilized to set off against income within five years from the year in which the Group derives operating profit.

9. DIVIDEND

The directors do not recommend the payment of any dividend in respect of the Relevant Period.

10. PROPERTY, PLANT AND EQUIPMENT

| | Buildings <i>HK\$ '000</i> | Furniture, fixtures and equipment <i>HK\$ '000</i> | Motor vehicles <i>HK\$ '000</i> | Construction in progress <i>HK\$ '000</i> | Total <i>HK\$ '000</i> |
|---|-------------------------------|---|------------------------------------|---|---------------------------|
| The Group | | | | | |
| Reconciliation of carrying amount — period ended December 31, 2006 | | | | | |
| Additions | 1,227 | 457 | 851 | 147,071 | 149,606 |
| Depreciation | (257) | (73) | (162) | — | (492) |
| Currency realignment | 28 | 13 | 25 | 3,957 | 4,023 |
| At December 31, 2006 | 998 | 397 | 714 | 151,028 | 153,137 |
| At December 31, 2006 | | | | | |
| Cost | 1,261 | 472 | 881 | 151,028 | 153,642 |
| Accumulated depreciation | (263) | (75) | (167) | — | (505) |
| | 998 | 397 | 714 | 151,028 | 153,137 |
| The Company | | | | | |
| Reconciliation of carrying amount — period ended December 31, 2006 | | | | | |
| Additions | — | 14 | — | — | 14 |
| Depreciation | — | (2) | — | — | (2) |
| At December 31, 2006 | — | 12 | — | — | 12 |
| At December 31, 2006 | | | | | |
| Cost | — | 14 | — | — | 14 |
| Accumulated depreciation | — | (2) | — | — | (2) |
| | — | 12 | — | — | 12 |

At December 31, 2006, interest expense of HK\$1,073,000 has been capitalized in the construction in progress.

11. INTEREST IN A SUBSIDIARY

| | As at December 31, 2006 <i>HK\$ '000</i> |
|---------------------------------------|---|
| Unlisted shares, at cost | 155,357 |
| Due from a subsidiary (<i>Note</i>) | 2,043 |
| | <u>157,400</u> |

Note: The amount due from a subsidiary is unsecured, interest-free and has no fixed term of repayment. The carrying amount of the amount due approximates its fair value.

11. INTEREST IN A SUBSIDIARY (continued)

Details of the subsidiary at the balance sheet date are as follows:

| Name of subsidiary | Place of incorporation | Class of capital held | Proportion of paid up capital by the Company <i>Directly</i> | Principal activities |
|---|------------------------|-----------------------|---|---|
| China Pearls and Jewellery International City Company Limited | The PRC | Registered capital | 100% | Properties holding for developing and managing pearls and jewellery centre in the PRC |

12. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | As at December 31, 2006 | |
|---|------------------------------|--------------------------------|
| | The Group <i>HK\$'000</i> | The Company <i>HK\$'000</i> |
| Other receivables | | |
| Deposits, prepayments and other receivables | 31,385 | 43 |
| Due from a director (<i>Note</i>) | 100 | — |
| | <u>31,485</u> | <u>43</u> |

Note: The amount due from a director is in the nature of current account, and is unsecured, interest-free and repayable on demand. At the balance sheet date, there was no interest due but unpaid and no provision had been made for non-repayment of the advances.

| Name of director | Maximum amount outstanding during the period | As at December 31, 2006 |
|------------------|--|-------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Lin Xian Fu | 100 | 100 |

13. CASH AND CASH EQUIVALENTS

| | As at December 31, 2006 | |
|--|------------------------------|--------------------------------|
| | The Group <i>HK\$'000</i> | The Company <i>HK\$'000</i> |
| Cash at bank and in hand | 26,661 | 2,876 |
| Time deposits | 96,877 | 15,164 |
| As stated in balance sheet and cash flow statement | <u>123,538</u> | <u>18,040</u> |

Cash at bank and in hand earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made between seven days to three months depending on the immediate cash requirement of the Group, and earn interest at the respective short-term deposit rates. The carrying amount of cash and cash equivalents approximates its fair value.

14. ACCRUED CHARGES AND OTHER PAYABLES

| | As at December 31, 2006 | |
|--|-------------------------|-------------------------|
| | The Group HK\$'000 | The Company HK\$'000 |
| Other payables | | |
| Accrued charges and other creditors | 93,245 | — |
| Due to a related party (<i>Note</i>) | 196 | 196 |
| Due to shareholders (<i>Note</i>) | 176,000 | 176,000 |
| | <u>176,000</u> | <u>176,000</u> |
| | <u>269,441</u> | <u>176,196</u> |

Note: The amounts due are unsecured, interest-free and have no fixed repayment term. The fair value of the amounts at the balance sheet date approximates their carrying amounts.

15. BANK BORROWINGS — THE GROUP

| | As at December 31, 2006 HK\$'000 |
|--------------------|---|
| Secured bank loans | <u>49,825</u> |
| Current | 19,930 |
| Non-current | <u>29,895</u> |
| | <u>49,825</u> |
| Within one year | 19,930 |
| In the second year | <u>29,895</u> |
| | <u>49,825</u> |

The bank borrowings are secured by guarantees provided by two related companies in which two directors are directors of the Company.

The carrying amount of bank borrowings approximates its fair value. The bank borrowings are carried at interest rate of 6.804% per annum.

16. SHARE CAPITAL

| | As at December 31, 2006 HK\$'000 |
|--------------------------------------|---|
| Authorized: | |
| 10,000 ordinary shares of HK\$1 each | <u>10</u> |
| Issued and fully paid: | |
| 100 ordinary shares of HK\$1 each | <u>—</u> |

The Company was incorporated in Hong Kong with limited liability on January 18, 2006 with HK\$10,000 authorized share capital of 10,000 ordinary shares of HK\$1 each. On incorporation, 100 ordinary shares of HK\$1 each were issued at par for cash consideration to provide initial working capital for the Company.

17. LOSS PER SHARE ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY FOR THE PERIOD

The calculation of basic loss per share is based on the net loss for the Relevant Period of HK\$15,379,000 approximately and the weighted average of 100 ordinary shares in issue during the Relevant Period.

18. CASH GENERATED FROM OPERATIONS

| | Period from January 18, 2006 (date of incorporation) to December 31, 2006 HK\$'000 |
|---|---|
| Loss before taxation | (15,379) |
| Depreciation | 492 |
| Interest income | (1,842) |
| Changes in working capital | |
| Prepayments, deposits and other receivables | (30,865) |
| Accrued charges and other payable | 91,453 |
| | <hr/> |
| Cash generated from operations | 43,859 |
| | <hr/> <hr/> |

19. RELATED PARTY TRANSACTIONS

- (a) Other than those transactions and balances as disclosed elsewhere in the Financial Information, the Group had not entered into other material transaction with related party.
- (b) Compensation to key management personnel of the Group represented directors' remuneration as disclosed in Note 7 to the Financial Information.

20. COMMITMENTS**Commitments under operating leases**

At December 31, 2006, the Group had total future minimum lease payments under non-cancellable operating leases of HK\$165,000, which are payable within one year.

Capital expenditure commitments

| | As at December 31, 2006 HK\$'000 |
|--|---|
| Contracted but not provided net of deposit paid in the Financial Information | 141,930 |
| | <hr/> <hr/> |

21. SUBSEQUENT EVENTS

Subsequent to the balance sheet date, the Company entered into buildings construction contracts with a total consideration of approximately HK\$91,000,000.

B. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared for the Group in respect of any period subsequent to December 31, 2006. No dividend has been declared by the Company in respect of any period subsequent to December 31, 2006.

Yours faithfully,

Moore Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong

1. SUMMARY OF FINANCIAL INFORMATION OF THE GROUP

(i) Unaudited interim financial statements for the period ended September 30, 2006

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, 2006.

Condensed Consolidated Income Statement

For the six months ended September 30

| | <i>Notes</i> | 2006 <i>HK\$ '000</i> <i>(unaudited)</i> | 2005 <i>HK\$ '000</i> <i>(unaudited)</i> <i>(Restated)</i> |
|---|--------------|---|--|
| Turnover | 3 | 193,332 | 211,867 |
| Cost of sales | | <u>(133,675)</u> | <u>(153,260)</u> |
| Gross profit | | 59,657 | 58,607 |
| Investment income | | 4,077 | 2,621 |
| Net unrealized gain on financial assets at fair value through profit or loss | | 172 | 1,485 |
| Other operating income | | 2,396 | 2,417 |
| Selling expenses | | (5,347) | (4,457) |
| Administrative expenses | | <u>(33,744)</u> | <u>(31,741)</u> |
| Profit before taxation | 4 | 27,211 | 28,932 |
| Taxation | 5 | <u>(2,487)</u> | <u>(4,941)</u> |
| Net profit for the period | | <u><u>24,724</u></u> | <u><u>23,991</u></u> |
| Earnings per share | 7 | | |
| — Basic | | <u><u>2.47 cents</u></u> | <u><u>2.40 cents</u></u> |
| — Diluted | | <u><u>2.45 cents</u></u> | <u><u>N/A</u></u> |

Condensed Consolidated Balance Sheet

At September 30, 2006

| | <i>Notes</i> | September 30, 2006 <i>HK\$'000</i> <i>(unaudited)</i> | March 31, 2006 <i>HK\$'000</i> <i>(audited)</i> |
|---|--------------|--|--|
| Non-current assets | | | |
| Investment properties | | 94,863 | 94,863 |
| Property, plant and equipment | | 101,042 | 103,056 |
| Prepaid land lease payments | | 31,648 | 32,030 |
| Interest in an associate | 8 | 86,459 | 1,692 |
| Deferred tax assets | | 5,504 | 5,100 |
| | | <u>319,516</u> | <u>236,741</u> |
| Current assets | | | |
| Inventories | | 41,824 | 55,870 |
| Trade and other receivables | 9 | 92,149 | 58,453 |
| Financial assets at fair value through profit or loss | | 15,732 | 15,560 |
| Tax receivable | | 708 | 1,451 |
| Bank balances and cash | | 223,097 | 286,580 |
| | | <u>373,510</u> | <u>417,914</u> |
| Current liabilities | | | |
| Trade and other payables | 10 | 31,251 | 33,269 |
| Taxation | | 1,641 | — |
| | | <u>32,892</u> | <u>33,269</u> |
| Net current assets | | <u>340,618</u> | <u>384,645</u> |
| Total assets less current liabilities | | <u>660,134</u> | <u>621,386</u> |
| Non-current liabilities | | | |
| Amount due to an immediate holding company | | 10,484 | 2,095 |
| Deferred tax liabilities | | 11,239 | 10,866 |
| | | <u>21,723</u> | <u>12,961</u> |
| Net assets | | <u><u>638,411</u></u> | <u><u>608,425</u></u> |
| Capital and reserves | | | |
| Share capital | 11 | 100,074 | 100,074 |
| Reserves | | 538,337 | 508,351 |
| | | <u>638,411</u> | <u>608,425</u> |

Consolidated Statement of Changes in Equity*For the six months ended September 30, 2006*

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other non- distributable reserve <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|-------------------------------------|-------------------------------------|---|--|---|--|--------------------------|
| Balance at April 1, 2005, restated (audited) | 90,977 | 59,938 | 1,801 | 23,969 | 4,563 | 371,767 | 553,015 |
| Exchange differences arising from translation of financial statements of overseas operations | — | — | — | — | 1,109 | — | 1,109 |
| Net gain not recognized in the income statement | — | — | — | — | 1,109 | — | 1,109 |
| Capitalization on bonus issue of shares | 9,097 | (9,097) | — | — | — | — | — |
| Release on depreciation of leasehold land and buildings | — | — | — | (486) | — | 486 | — |
| Net profit for the period | — | — | — | — | — | 23,991 | 23,991 |
| Balance at September 30, 2005 (unaudited) | 100,074 | 50,841 | 1,801 | 23,483 | 5,672 | 396,244 | 578,115 |

Consolidated Statement of Changes in Equity (continued)*For the six months ended September 30, 2006*

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other non-distributable reserve <i>HK\$'000</i> | Capital reserve <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Retained profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|----------------------------------|----------------------------------|--|------------------------------------|---|--|-------------------------------------|--------------------------|
| Balance at April 1, 2006 (audited) | 100,074 | 50,841 | 1,801 | — | 33,751 | 6,265 | 415,693 | 608,425 |
| Exchange differences arising from translation of financial statements of overseas operations | — | — | — | — | — | 760 | — | 760 |
| Net gain not recognized in the income statement | — | — | — | — | — | 760 | — | 760 |
| Share options granted | — | — | — | 4,502 | — | — | — | 4,502 |
| Release on depreciation of leasehold land and buildings | — | — | — | — | (530) | — | 530 | — |
| Net profit for the period | — | — | — | — | — | — | 24,724 | 24,724 |
| Balance at September 30, 2006 (unaudited) | 100,074 | 50,841 | 1,801 | 4,502 | 33,221 | 7,025 | 440,947 | 638,411 |

Other non-distributable reserve was arising from the transactions under corporate reorganization in 1997.

Condensed Consolidated Cash Flow Statement*For the six months ended September 30*

| | 2006 <i>HK\$ '000</i> <i>(unaudited)</i> | 2005 <i>HK\$ '000</i> <i>(unaudited)</i> |
|--|---|---|
| Net cash from operating activities | 9,482 | 10,048 |
| Net cash (used in) from investing activities | (82,018) | 1,393 |
| Net cash from (used in) financing activities | <u>8,389</u> | <u>(2,192)</u> |
| Net (decrease) increase in cash and cash equivalents | (64,147) | 9,249 |
| Cash and cash equivalents at beginning of the period | 286,580 | 229,350 |
| Effect of foreign exchange rate changes | <u>664</u> | <u>175</u> |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | <u><u>223,097</u></u> | <u><u>238,774</u></u> |

Notes to the Condensed Financial Statements*For the six months ended September 30, 2006***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”) and the Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

2. ACCOUNTING POLICIES

The Group has adopted a new policy HKAS 17 “Leases” for leasehold land and buildings held for own use for the year ended March 31, 2006 to account for the leasehold interest in the land held for own use as being held under operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately at the time the lease was first entered into by the Group. Relative comparative figures have been restated accordingly. Adoption of this policy does not have significant impact on these interim financial statements.

The accounting policies adopted in these interim financial statements are consistent with those adopted in the Group’s audited financial statements for year ended March 31, 2006, except for the following:

Share-based payment transactions

During the period, the Company granted share options to the directors and staff of the Group. The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company (“market conditions”), if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award (“vesting date”). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms had not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

HKAS 39 and HKFRS 4 (amendment) “Financial Guarantee Contracts”

The Group has adopted HKAS 39 and HKFRS 4 (amendment) “Financial Guarantee Contracts” effective for the accounting periods beginning on April 1, 2006.

A financial guarantee contract is a contract that requires the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified term of a debt instrument. The directors consider adoption of this amendment would have no significant impact on the Group’s financial statements.

Notes to the Condensed Financial Statements (continued)

For the six months ended September 30, 2006

2. ACCOUNTING POLICIES (continued)**Future changes in HKFRS**

At the date of authorization of these interim financial statements, the HKICPA has issued a number of new/revised HKFRS that are not yet effective and the Group has not early adopted. The directors anticipate that the adoption of these new/revised HKFRS in the future accounting periods will have no significant impact on the result of the Group.

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 and wholesale distribution of pearls and jewelry products |
| Property investment | — | Leasing of properties |

Segment information about these businesses is presented below:

Six months ended September 30, 2006 (unaudited)

| | Pearls <i>HK\$'000</i> | Property investment <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|------------------------------------|----------------------------------|---|--|
| Revenue | | | |
| External sales or rentals | 193,332 | 1,857 | 195,189 |
| Result | | | |
| Segment results | 28,980 | (523) | 28,457 |
| Unallocated other operating income | | | 4,788 |
| Unallocated corporate expenses | | | (6,034) |
| Profit before taxation | | | 27,211 |

Notes to the Condensed Financial Statements (continued)

For the six months ended September 30, 2006

3. TURNOVER AND SEGMENT INFORMATION (continued)

Six months ended September 30, 2005 (unaudited)

| | Pearls <i>HK\$ '000</i> <i>(Restated)</i> | Property investment <i>HK\$ '000</i> | Consolidated <i>HK\$ '000</i> <i>(Restated)</i> |
|------------------------------------|---|--|---|
| Revenue | | | |
| External sales or rentals | 211,867 | 1,843 | 213,710 |
| Result | | | |
| Segment results | 27,073 | (1,345) | 25,728 |
| Unallocated other operating income | | | 4,679 |
| Unallocated corporate expenses | | | (1,475) |
| Profit before taxation | | | 28,932 |

4. PROFIT BEFORE TAXATION

For the six months ended
September 30,

| | 2006 <i>HK\$ '000</i> <i>(unaudited)</i> | 2005 <i>HK\$ '000</i> <i>(unaudited)</i> <i>(Restated)</i> |
|--|--|---|
| Profit before taxation has been arrived at after charging: | | |
| Depreciation and amortization | 3,654 | 3,615 |
| Staff costs, including directors emoluments | 20,345 | 15,873 |

5. TAXATION

For the six months ended
September 30,

| | 2006 <i>HK\$ '000</i> <i>(unaudited)</i> | 2005 <i>HK\$ '000</i> <i>(unaudited)</i> <i>(Restated)</i> |
|------------------|--|---|
| Current tax: | | |
| — Hong Kong | 2,518 | 6,678 |
| Deferred tax: | | |
| — Current period | (31) | (1,737) |
| | 2,487 | 4,941 |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended September 30, 2006 and September 30, 2005.

Notes to the Condensed Financial Statements (continued)

For the six months ended September 30, 2006

6. DIVIDEND

The directors do not recommend the payment of an interim dividend (*six months ended September 30, 2005: 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\$24,724,000 (*six months ended September 30, 2005: HK\$23,991,000*) and on 1,000,740,000 (*six months ended September 30, 2005: 1,000,740,000*) shares in issue during the period.

Diluted earnings per share for six months ended September 30, 2006 is calculated based on the profit for the period of HK\$24,724,000 and on the adjusted weighted average number of 1,009,983,000 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 9,243,000 shares deemed to be issued at no consideration if all outstanding options had been exercised. No diluted earnings per share have been presented for the period ended September 30, 2005 as there are no dilutive potential ordinary shares in issue.

8. INTEREST IN AN ASSOCIATE

| | September 30, 2006 | March 31, 2006 |
|--------------------------|-------------------------------|---------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(unaudited)</i> | <i>(audited)</i> |
| Unlisted shares, at cost | — | — |
| Due from an associate | 86,459 | 1,692 |
| | <u>86,459</u> | <u>1,692</u> |

The amount due from an associate is unsecured, interest free and has no fixed repayment terms.

Unaudited financial information of the associate for the period ended September 30, 2006 is summarized as follows:

| | September 30, 2006 | March 31, 2006 |
|--|---|---------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Total assets | 273,828 | 17,811 |
| Total liabilities | (276,407) | (19,043) |
| Net liabilities | <u>(2,579)</u> | <u>(1,232)</u> |
| | For the six months ended September 30, | |
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Turnover | <u>1,508</u> | <u>—</u> |
| Net loss | <u>(3,246)</u> | <u>—</u> |
| Net loss attributable to the Group (<i>note</i>) | <u>(1,591)</u> | <u>—</u> |

Notes to the Condensed Financial Statements (continued)

For the six months ended September 30, 2006

8. INTEREST IN AN ASSOCIATE (continued)

Note: Net loss attributable to the Group for the period of HK\$1,591,000 (six months ended September 30, 2005: Nil) has not been recognized for the associate that exceed its equity interest. At the balance sheet date, the Group has accumulated unrecognized losses amounted to HK\$2,195,000 (March 31, 2006: HK\$604,000).

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\$81,070,000 (March 31, 2006: HK\$47,330,000) and their ageing analysis after credit period is as follows:

| | September 30, 2006 | March 31, 2006 |
|-------------|-------------------------------|---------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(unaudited)</i> | <i>(audited)</i> |
| 0–60 days | 76,637 | 43,479 |
| 61–120 days | 4,433 | 3,851 |
| | <u>81,070</u> | <u>47,330</u> |

10. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$13,631,000 (March 31, 2006: HK\$11,477,000) and their ageing analysis after credit period is as follows:

| | September 30, 2006 | March 31, 2006 |
|-------------|-------------------------------|---------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(unaudited)</i> | <i>(audited)</i> |
| 0–60 days | 13,626 | 9,461 |
| 61–120 days | 5 | 1,268 |
| >120 days | — | 748 |
| | <u>13,631</u> | <u>11,477</u> |

11. SHARE CAPITAL**Ordinary shares of HK\$0.10 each**

| | <i>No. of shares '000</i> | <i>HK\$'000</i> |
|---|-------------------------------|-----------------|
| Authorized: | | |
| At April 1, 2006 and September 30, 2006 | <u>1,500,000</u> | <u>150,000</u> |
| Issued and fully paid: | | |
| At April 1, 2006 and September 30, 2006 | <u>1,000,740</u> | <u>100,074</u> |

Notes to the Condensed Financial Statements (continued)

For the six months ended September 30, 2006

12. CAPITAL COMMITMENT

| | September 30, 2006 | March 31, 2006 |
|--|-------------------------------|---------------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(Unaudited)</i> | <i>(audited)</i> |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | <u>1,312</u> | <u>1,312</u> |

13. RELATED PARTY TRANSACTIONS**(a) Transactions with related parties**

The Group sold jewelry products amounted to HK\$41,000 (*six month ended September 30, 2005: HK\$Nil*) to China Pearls and Jewellery City Holdings Limited, which is an associate of the Group during the period ended September 30, 2006.

During the period ended September 30, 2006, the Group sold jewelry products amounted to HK\$395,000 (*six months ended September 30, 2005: HK\$293,000*) 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, 2006, rental expenses of HK\$95,000 (*six months ended September 30, 2005: HK\$38,000*) was paid to CSII.

During the period ended September 30, 2006, reimbursement amounted to HK\$84,000 (*six months ended September 30, 2005: HK\$98,000*) was received from CSII for the salaries of the Group's staff who had 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, | |
|---|---|--------------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Short-term employment benefits | 4,829 | 4,782 |
| Post-employment benefits | 29 | 32 |
| Share-base payment (<i>note</i>) | <u>1,588</u> | <u>—</u> |
| Total compensation paid to key management personnel | <u>6,446</u> | <u>4,814</u> |

Note: The fair value of all share options granted for the period is determined using Black-Scholes pricing model.

Save as disclosed in the financial statements, there were no other 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, 2006, 2005 and 2004 and the audited consolidated balance sheets at March 31, 2006, 2005 and 2004, as extracted from the published audited financial statements of the Group for each of the three years ended March 31, 2006.

Consolidated Income Statements

For the years ended March 31, 2006

| | 2006 <i>HK\$'000</i> | 2005 <i>HK\$'000</i> <i>(Restated)</i> | 2004 <i>HK\$'000</i> |
|---|--------------------------------|---|--------------------------------|
| Turnover | 378,297 | 412,262 | 382,123 |
| Cost of sales | (272,443) | (295,014) | (277,976) |
| Gross profit | 105,854 | 117,248 | 104,147 |
| Investment income | 7,672 | 1,213 | 1,664 |
| Other operating income | 4,675 | 6,039 | 8,130 |
| Selling expenses | (8,407) | (7,647) | (7,409) |
| Administrative expenses | (66,373) | (75,169) | (72,870) |
| Revaluation increase on buildings/leasehold land and buildings | 81 | 30 | 5,823 |
| Increase in fair value of investment properties | 40 | 3,146 | 855 |
| Net unrealized gain on financial assets at fair value through profit or loss/other investments | 3,274 | 646 | 2,752 |
| Impairment loss on available-for-sale financial assets/ investment securities | — | (856) | (1,730) |
| Impairment loss on property, plant and equipment | — | (2,617) | — |
| Profit from operations | 46,816 | 42,033 | 41,362 |
| Finance costs | — | (100) | (380) |
| Profit before taxation | 46,816 | 41,933 | 40,982 |
| Taxation | (3,836) | 85 | (3,802) |
| Profit for the year | <u>42,980</u> | <u>42,018</u> | <u>37,180</u> |
| Earnings per share | | | |
| Basic | <u>4.29 cents</u> | <u>4.20 cents</u> | <u>4.09 cents</u> |

Note: Comparative figures for the year ended March 31, 2005 have been restated to reflect the adoption of new/revised HKFRSs. The comparative figures for the year ended March 31, 2004 have not been restated as the directors are of the opinion that it is impracticable to do so.

Consolidated Balance Sheets

At March 31, 2006

| | 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> <i>(Restated)</i> | 2004 <i>HK\$ '000</i> |
|---|---------------------------------|--|---------------------------------|
| Non-current assets | | | |
| Investment properties | 94,863 | 77,650 | 153,760 |
| Property, plant and equipment | 103,056 | 107,507 | 110,699 |
| Prepaid land lease payments | 32,030 | 32,794 | — |
| Interest in an associate | 1,692 | — | — |
| Investment securities | — | — | 856 |
| Deferred tax assets | 5,100 | 3,373 | 3,649 |
| | <u>236,741</u> | <u>221,324</u> | <u>268,964</u> |
| Current assets | | | |
| Inventories | 55,870 | 82,705 | 115,297 |
| Trade and other receivables | 58,453 | 54,629 | 79,626 |
| Financial assets at fair value through profit or loss/ Other investments | 15,560 | 8,422 | 7,776 |
| Tax receivable | 1,451 | — | — |
| Cash and cash equivalents | 286,580 | 229,350 | 90,451 |
| | <u>417,914</u> | <u>375,106</u> | <u>293,150</u> |
| Current liabilities | | | |
| Trade and other payables | 33,269 | 30,555 | 38,296 |
| Taxation | — | 1,661 | 1,560 |
| Secured bank borrowings, current portion | — | — | 5,575 |
| | <u>33,269</u> | <u>32,216</u> | <u>45,431</u> |
| Net current assets | <u>384,645</u> | <u>342,890</u> | <u>247,719</u> |
| | <u>621,386</u> | <u>564,214</u> | <u>516,683</u> |
| Capital and reserves | | | |
| Share capital | 100,074 | 90,977 | 82,706 |
| Reserves | 508,351 | 462,038 | 406,724 |
| | <u>608,425</u> | <u>553,015</u> | <u>489,430</u> |
| Non-current liabilities | | | |
| Secured bank borrowings, non-current portion | — | — | 6,016 |
| Due to immediate holding company | 2,095 | 2,245 | 6,000 |
| Deferred tax liabilities | 10,866 | 8,954 | 15,237 |
| | <u>12,961</u> | <u>11,199</u> | <u>27,253</u> |
| | <u>621,386</u> | <u>564,214</u> | <u>516,683</u> |

Note: Comparative figures for the year ended March 31, 2005 have been restated to reflect the adoption of new/revised HKFRSs. The comparative figures for the year ended March 31, 2004 have not been restated as the directors are of the opinion that it is impracticable to do so.

(iii) Audited financial statements for the year ended March 31, 2006

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, 2006.

Consolidated Income Statement

For the year ended March 31, 2006

| | <i>Note</i> | 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> <i>(Restated)</i> |
|--|-------------|---------------------------------|--|
| Turnover | 4 | 378,297 | 412,262 |
| Cost of sales | | <u>(272,443)</u> | <u>(295,014)</u> |
| Gross profit | | 105,854 | 117,248 |
| Investment income | 6 | 7,672 | 1,213 |
| Other operating income | | 4,675 | 6,039 |
| Selling expenses | | (8,407) | (7,647) |
| Administrative expenses | | (66,373) | (75,169) |
| Revaluation increase on buildings | | 81 | 30 |
| Increase in fair value of investment properties | | 40 | 3,146 |
| Net unrealized gain on financial assets at fair value through profit or loss/other investments | | 3,274 | 646 |
| Impairment loss on available-for-sale financial assets/investment securities | | — | (856) |
| Impairment loss on property, plant and equipment | | <u>—</u> | <u>(2,617)</u> |
| Profit from operations | 7 | 46,816 | 42,033 |
| Finance costs | 9 | <u>—</u> | <u>(100)</u> |
| Profit before taxation | | 46,816 | 41,933 |
| Taxation | 10 | <u>(3,836)</u> | <u>85</u> |
| Profit for the year | 11 | <u>42,980</u> | <u>42,018</u> |
| Earnings per share | | | |
| Basic | 12 | <u>4.29 cents</u> | <u>4.20 cents</u> |

Consolidated Balance Sheet*At March 31, 2006*

| | <i>Note</i> | 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> <i>(Restated)</i> |
|---|-------------|---------------------------------|--|
| Non-current assets | | | |
| Investment properties | <i>13</i> | 94,863 | 77,650 |
| Property, plant and equipment | <i>14</i> | 103,056 | 107,507 |
| Prepaid land lease payments | <i>15</i> | 32,030 | 32,794 |
| Interest in an associate | <i>16</i> | 1,692 | — |
| Deferred tax assets | <i>19</i> | 5,100 | 3,373 |
| | | <u>236,741</u> | <u>221,324</u> |
| Current assets | | | |
| Inventories | <i>20</i> | 55,870 | 82,705 |
| Trade and other receivables | <i>21</i> | 58,453 | 54,629 |
| Financial assets at fair value through profit or loss/Other investments | <i>22</i> | 15,560 | 8,422 |
| Tax receivable | | 1,451 | — |
| Cash and cash equivalents | <i>23</i> | 286,580 | 229,350 |
| | | <u>417,914</u> | <u>375,106</u> |
| Current liabilities | | | |
| Trade and other payables | <i>24</i> | 33,269 | 30,555 |
| Taxation | | — | 1,661 |
| | | <u>33,269</u> | <u>32,216</u> |
| Net current assets | | <u>384,645</u> | <u>342,890</u> |
| Total assets less current liabilities | | <u>621,386</u> | <u>564,214</u> |
| Non-current liabilities | | | |
| Due to immediate holding company | <i>25</i> | 2,095 | 2,245 |
| Deferred tax liabilities | <i>19</i> | 10,866 | 8,954 |
| | | <u>12,961</u> | <u>11,199</u> |
| Net assets | | <u><u>608,425</u></u> | <u><u>553,015</u></u> |
| Capital and reserves | | | |
| Share capital | <i>26</i> | 100,074 | 90,977 |
| Reserves | | 508,351 | 462,038 |
| | | <u>608,425</u> | <u>553,015</u> |

Balance Sheet*At March 31, 2006*

| | <i>Note</i> | 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> |
|---|-------------|---------------------------------|---------------------------------|
| Non-current assets | | | |
| Interest in subsidiaries | <i>17</i> | 340,958 | 342,322 |
| Deferred tax assets | <i>19</i> | 530 | — |
| | | <u>341,488</u> | <u>342,322</u> |
| Current assets | | | |
| Other receivables | | 237 | 226 |
| Financial assets at fair value through profit or loss/ Other investments | <i>22</i> | 15,560 | 8,422 |
| Cash and cash equivalents | <i>23</i> | 6,815 | 7,658 |
| | | <u>22,612</u> | <u>16,306</u> |
| Current liability | | | |
| Other payables | | 567 | 240 |
| Net current assets | | <u>22,045</u> | <u>16,066</u> |
| Net assets | | <u><u>363,533</u></u> | <u><u>358,388</u></u> |
| Capital and reserves | | | |
| Share capital | <i>26</i> | 100,074 | 90,977 |
| Reserves | <i>28</i> | 263,459 | 267,411 |
| | | <u>363,533</u> | <u>358,388</u> |

Consolidated Statement of Changes in Equity

For the year ended March 31, 2006

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other non- distributable reserve <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Investment property revaluation reserve <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Accumulated profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|---|--------------------------------------|---|--|---|---|--------------------------|
| The Group | | | | | | | | | |
| 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 |
| Effect of changes in accounting policies (note 3): | | | | | | | | | |
| — HKAS 40 | — | — | — | — | (38,623) | — | — | 38,623 | — |
| — HKAS-Int 21 | — | — | — | — | — | — | — | 2,332 | 2,332 |
| — HKAS 17 | — | — | — | — | — | (177) | — | 2,919 | 2,742 |
| As restated | 82,706 | 68,209 | 2,001 | (200) | — | 7,897 | 4,542 | 329,349 | 494,504 |
| Revaluation increase on leasehold land and buildings | — | — | — | — | — | 18,699 | — | — | 18,699 |
| Deferred tax liabilities arising on revaluation of leasehold land and buildings | — | — | — | — | — | (2,227) | — | — | (2,227) |
| Exchange differences arising from translation of financial statements of operations outside Hong Kong | — | — | — | — | — | — | 21 | — | 21 |
| Net income directly recognized in equity | — | — | — | — | — | 16,472 | 21 | — | 16,493 |
| Capitalization on bonus issue of shares | 8,271 | (8,271) | — | — | — | — | — | — | — |
| Release on depreciation of leasehold land and buildings | — | — | — | — | — | (400) | — | 400 | — |
| Profit for the year | — | — | — | — | — | — | — | 42,018 | 42,018 |
| Balance at March 31, 2005 | 90,977 | 59,938 | 2,001 | (200) | — | 23,969 | 4,563 | 371,767 | 553,015 |

Consolidated Statement of Changes in Equity (continued)*For the year ended March 31, 2006*

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other non- distributable reserve <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Investment property revaluation reserve <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Accumulated profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|-------------------------------------|-------------------------------------|---|--------------------------------------|---|--|---|---|--------------------------|
| The Group | | | | | | | | | |
| Balance at April 1, 2005 | | | | | | | | | |
| As previously reported | 90,977 | 59,938 | 2,001 | (200) | 9,764 | 24,607 | 4,563 | 357,335 | 548,985 |
| Effect of changes in accounting policies (note 3): | | | | | | | | | |
| — HKAS 40 | — | — | — | — | (9,764) | — | — | 9,764 | — |
| — HKAS-Int 21 | — | — | — | — | — | — | — | 7,125 | 7,125 |
| — HKAS 17 | — | — | — | — | — | (638) | — | (2,457) | (3,095) |
| As restated | 90,977 | 59,938 | 2,001 | (200) | — | 23,969 | 4,563 | 371,767 | 553,015 |
| Revaluation increase on leasehold land and buildings | — | — | — | — | — | 12,973 | — | — | 12,973 |
| Deferred tax liabilities arising on revaluation of leasehold land and buildings | — | — | — | — | — | (2,245) | — | — | (2,245) |
| Exchange differences arising from translation of financial statements of operations outside Hong Kong | — | — | — | — | — | — | 1,702 | — | 1,702 |
| Net income directly recognized in equity | — | — | — | — | — | 10,728 | 1,702 | — | 12,430 |
| Capitalization on bonus issue of shares | 9,097 | (9,097) | — | — | — | — | — | — | — |
| Release on depreciation of leasehold land and buildings | — | — | — | — | — | (946) | — | 946 | — |
| Profit for the year | — | — | — | — | — | — | — | 42,980 | 42,980 |
| Balance at March 31, 2006 | 100,074 | 50,841 | 2,001 | (200) | — | 33,751 | 6,265 | 415,693 | 608,425 |

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 (2005: 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, 2006*

| | 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> <i>(Restated)</i> |
|--|---------------------------------|--|
| OPERATING ACTIVITIES | | |
| Profit before taxation | 46,816 | 41,933 |
| Adjustments for: | | |
| Interest income | (6,674) | (978) |
| Interest expenses | — | 100 |
| Depreciation of property, plant and equipment | 6,543 | 5,981 |
| Amortization of prepaid land lease payments | 764 | 764 |
| Impairment loss on property, plant and equipment | — | 2,617 |
| Increase in fair value on investment properties | (40) | (3,146) |
| Revaluation increase on buildings | (81) | (30) |
| Gain on disposal of property, plant and equipment and an investment property | (1) | (146) |
| Impairment loss on available-for-sale financial assets/ investment securities | — | 856 |
| Net unrealized gain on financial assets at fair value through profit or loss/other investments | (3,274) | (646) |
| Gain on disposal of financial assets at fair value through profit or loss/other investments | (706) | — |
| Dividends received | (292) | (235) |
| Allowance for bad and doubtful debts | 286 | 9,057 |
| Operating cash flows before movements in working capital | 43,341 | 56,127 |
| Decrease in inventories | 27,473 | 32,602 |
| (Increase) Decrease in trade and other receivables | (4,057) | 8,730 |
| Increase (Decrease) in trade and other payables | 2,508 | (586) |
| Cash generated from operations | 69,265 | 96,873 |
| Hong Kong Profits Tax paid | (8,936) | (5,538) |
| Overseas tax paid | (72) | (134) |
| Interest paid | — | (100) |
| Net cash from operating activities | 60,257 | 91,101 |

Consolidated Cash Flow Statement (continued)*For the year ended March 31, 2006*

| | <i>Note</i> | 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> <i>(Restated)</i> |
|--|-------------|---------------------------------|--|
| INVESTING ACTIVITIES | | | |
| Purchases of property, plant and equipment | | (6,742) | (10,009) |
| Purchases of financial assets at fair value through profit or loss/ other investments | | (5,051) | — |
| Proceeds from disposal of an investment property | | — | 71,610 |
| Proceeds from disposal of property, plant and equipment | | 915 | 320 |
| Proceeds from disposal of financial assets at fair value through profit or loss/other investments | | 1,893 | — |
| Advance to an associate | | (1,692) | — |
| Dividends received | | 292 | 235 |
| Interest received | | 6,674 | 978 |
| Net cash (used in) from investing activities | | <u>(3,711)</u> | <u>63,134</u> |
| FINANCING ACTIVITIES | | | |
| Repayment of bank loans | | — | (11,591) |
| Repayment of advance from immediate holding company | | (150) | (3,755) |
| Net cash used in financing activities | | <u>(150)</u> | <u>(15,346)</u> |
| Net increase in cash and cash equivalents | | 56,396 | 138,889 |
| Cash and cash equivalents at beginning of year | | 229,350 | 90,451 |
| Effect of foreign exchange rate changes | | 834 | 10 |
| Cash and cash equivalents at end of year | 23 | <u><u>286,580</u></u> | <u><u>229,350</u></u> |

Notes to the Financial Statements*For the year ended March 31, 2006***1. GENERAL INFORMATION**

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 address of the registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The Company’s immediate holding company is Man Sang International (B.V.I.) Limited and its ultimate holding company is Cafaong Limited, both of which are 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. SIGNIFICANT ACCOUNTING POLICIES**(a) Statement of compliance**

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (“HKASs”) and Interpretations (“HKAS-Int”) issued by the Hong Kong Institute of Certified Public Accountants (the “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 HKFRSs which are generally effective for accounting periods beginning on or after January 1, 2005. Details of major changes in accounting policies following the adoption of these HKFRSs are summarized in note 3 to the financial statements.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, investment properties, leasehold land and buildings, which are stated at fair value as explained in the accounting policies set out below.

(c) 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 intra-group transactions and balances and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized profits but only to the extent that there is no evidence of impairment.

(d) Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiaries is included in the Company’s balance sheet at cost less impairment losses. The carrying amount of investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(e) Associates**

An associate is an entity over which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Investment in associates is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the net assets of the associates. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the income statement.

(f) Investment properties

Investment properties are land and/or buildings that are held to earn rental income and/or for capital appreciation, which include property interest held under operating lease carries at fair value.

Investment properties are stated at fair value at the balance sheet date. Any gain or loss arising from a change in fair value is recognized in the income statement. Profit or loss on disposal of investment properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement upon disposal.

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

The fair value of investment properties is based on valuation by an independent valuer who holds a recognized professional qualification and has recent experience in the location and category of property being valued. Fair value is based on market value, being the estimated amount for which a property could be exchanged 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.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is completed, at which time it is reclassified and subsequently accounted for as investment property.

(g) Property, plant and equipment

Property, plant and equipment, other than leasehold land and buildings and construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(g) Property, plant and equipment (continued)**

The leasehold 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 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 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.

Leasehold land and buildings transferred from investment properties are stated at deemed cost equal to its fair value at the date of change in use and is continued to account for as if it was an asset held under finance lease. The entire lease payment of leasehold land and buildings are included in the cost of land and buildings as a finance lease in property, plant and equipment and stated at revalued amount.

Depreciation is provided to write off the cost or valuation less accumulated impairment losses, other than construction in progress, over their estimated useful lives from the date on which they are available for use 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% |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising from the disposal or retirement of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is taken to the income statement.

Construction in progress is stated at cost less accumulated impairment losses. Costs include 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 and available for use. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

(h) Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire medium-term interests in lessee-occupied properties. The payments are stated at cost and are amortized over the period of the lease on a straight-line basis to the income statement.

(i) Financial instruments

Financial assets and financial liabilities are recognized on the trade date basis, and when the Group become a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at cost, being the fair value of the consideration given and except for financial assets or financial liabilities at fair value through profit or loss, including transaction costs directly attributable to the acquisition. The derecognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to third party. The Group derecognizes financial liability when, and only when the liability is extinguished. The Group classifies its financial assets and financial liabilities into the following categories.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(i) Financial instruments (continued)**

Financial assets or financial liabilities at fair value through profit or loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities that are held for trading or derivatives do not qualify for hedge accounting, and those designated at fair value through profit or loss at inception. They are measured at fair value and recognise changes in fair value in the income statement.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as this category or not classified in any of the other categories. They are measured at fair value with changes in value recognized as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses.

(j) Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amount of its property, plant and equipment, investment in associates and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognized no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, except that the relevant asset is carried at valuation in which case the impairment loss is treated as a revaluation decrease.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognized in prior years. Reversal of impairment losses is recognized as income immediately, except where the relevant asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

(k) Inventories

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

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(m) Trade and other payables**

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and when the revenue and cost, if applicable, can be measured reliably and on the following bases.

Sale of goods is recognized on transfer of risks and rewards of ownership, which generally coincides with time when the goods are delivered to customers and title has passed.

Service income is recognized in the period when services are provided.

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

Rental income under operating leases is recognized in the period in which the properties are let out and on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognized when the rights to receive payments have been established.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(p) Segment reporting (continued)**

Unallocated items mainly comprise financial and corporate assets, borrowings, tax balances, corporate and financing expenses.

(q) Foreign currency translation*(i) Functional and presentation currency*

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

(ii) Transactions and balances

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

(iii) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates;
- all resulting exchange differences are transferred to the Group's translation reserve and recognized as a separate component of equity. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***2. SIGNIFICANT ACCOUNTING POLICIES (continued)****(r) Taxation**

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax liabilities and assets are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilized.

(s) 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.

(t) Related parties

A party is related to the Group if:

- (i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;
- (ii) the party is an associate of the Group;
- (iii) the party is a joint venture in which the Group is a venturer;
- (iv) the party is a member of the key management personnel of the Group or its shareholders;
- (v) the party is a close member of the family of any individual referred to in (i) or (iv);
- (vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or
- (vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

2. SIGNIFICANT ACCOUNTING POLICIES (continued)**(u) Retirement benefits scheme**

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

(v) Future changes in HKFRSs

At the date of authorization of these financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective and the Group has not early adopted. The directors anticipate that the adoption of these new/revised HKFRSs in the future accounting periods will have no significant impact on the result of the Group.

3. CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after January 1, 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarized in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) Changes in accounting policies*Leasehold land and buildings held for own use (HKAS 17 Leases)*

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the other property revaluation reserve.

With effect from January 1, 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

The prepaid land lease payments are accounted for as operating lease and stated at cost and amortized over the period of lease whereas the buildings held for own use which are situated on such land leases continue to be carried at revalued amount and presented as part of property, plant and equipment.

This change in accounting policies has been applied retrospectively.

Financial instruments (HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement)

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until March 31, 2005, the Group and the Company classified investments into investment securities and other investments. Investment securities were stated at cost less provision for impairment losses that was expected to be other than temporary. Other investments were stated at their fair value and changes in fair value were recognized in income statement as they arisen.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

3. CHANGES IN ACCOUNTING POLICIES (continued)**(a) Changes in accounting policies (continued)**

Financial instruments (HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement) (continued)

In accordance with the provisions of HKAS 39, the investments have been classified into financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Details of accounting policies are set out in note 2(i) to the financial statements.

Upon the adoption of HKAS 32 and HKAS 39, the Group and the Company's investment securities and other investments were re-designated as available-for-sale financial assets and financial assets at fair value through profit or loss respectively. They have been re-measured in accordance with HKAS 39 as appropriate. The adoption of HKAS 32 and 39 had no significant impact on the results and financial positions of the current and prior accounting periods. No prior period adjustments were required.

Investment property (HKAS 40 Investment Property)

In prior years, investment properties were stated at market values with revaluation increase or decrease credited or charged to 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.

Upon adoption of HKAS 40, the Group has elected to use the fair value model to account for its investment properties which required changes in the fair value of investment properties to be recognized directly in the income statement for the period in which they arise. The new accounting policy has been applied retrospectively.

Measurement of deferred tax on movements in fair value of investment properties (HKAS-Int 21 Income Taxes — Recovery of Revalued Non-Depreciable Assets)

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale. The new accounting policy has been applied retrospectively.

Definition of related parties (HKAS 24 Related Party Disclosures)

As a result of the adoption of HKAS 24 Related party disclosures, the definition of related parties as disclosed in note 2(t) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

3. CHANGES IN ACCOUNTING POLICIES (continued)

(b) Restatement of prior period balances/Estimated effects of changes in accounting policies on current period

The Group

| | Income statement | | Balance sheet | |
|---|------------------|-----------------|---------------|----------|
| | 2006 | 2005 | 2006 | 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| <i>HKAS 17</i> | | | | |
| Decrease in property, plant and equipment | — | — | (41,426) | (36,038) |
| Increase in prepaid land lease payments | — | — | 32,030 | 32,794 |
| Decrease in deferred tax liabilities | — | — | 2,119 | 150 |
| Decrease in other property revaluation reserve | — | — | 5,116 | 638 |
| Decrease in accumulated profits | — | — | 2,161 | 2,457 |
| Decrease (Increase) in administrative expenses | 74 | (131) | — | — |
| Increase in revaluations surplus on buildings | 80 | 30 | — | — |
| Decrease in revaluation surplus on leasehold land and buildings | (340) | (5,392) | — | — |
| Decrease in taxation | 738 | 64 | — | — |
| <i>HKAS 40 and HKAS-Int 21</i> | | | | |
| Decrease in investment property revaluation reserve | — | — | 3,901 | 9,764 |
| Increase in accumulated profits | — | — | (10,611) | (16,889) |
| Decrease in deferred tax assets | — | — | (569) | (155) |
| Decrease in deferred tax liabilities | — | — | 7,279 | 7,279 |
| Increase in other operating income | — | 10 | — | — |
| Increase in revaluation surplus on investment properties | 40 | 3,146 | — | — |
| (Increase) Decrease in taxation | (415) | 6,166 | — | — |
| Decrease in gain on disposal of an investment property | — | (33,388) | — | — |
| | <u>177</u> | <u>(29,495)</u> | <u>—</u> | <u>—</u> |

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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format.

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 distribution of pearls and jewelry products.

Property investment — Leasing of properties.

Segment information about these businesses is presented below:

Income statement (For the year ended March 31, 2006)

| | Pearls <i>HK\$'000</i> | Property investment <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|------------------------------------|----------------------------------|---|--|
| Revenue | | | |
| External sales or rentals | 378,297 | 3,362 | 381,659 |
| Results | | | |
| Segment results | 40,176 | (2,117) | 38,059 |
| Unallocated other operating income | | | 12,210 |
| Unallocated corporate expenses | | | (3,453) |
| Profit from operations | | | 46,816 |
| Finance costs | | | — |
| Profit before taxation | | | 46,816 |
| Taxation | | | (3,836) |
| Profit for the year | | | 42,980 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

Balance sheet (At March 31, 2006)

| | Pearls <i>HK\$'000</i> | Property investment <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|-----------------------------------|---------------------------|---|---------------------------------|
| Assets | | | |
| Segment assets | 494,308 | 94,863 | 589,171 |
| Interest in an associate | 1,692 | — | 1,692 |
| | <hr/> | <hr/> | <hr/> |
| Unallocated corporate assets | | | 63,792 |
| Consolidated total assets | | | <u>654,655</u> |
| Liabilities | | | |
| Segment liabilities | 30,294 | 2,316 | 32,610 |
| | <hr/> | <hr/> | <hr/> |
| Unallocated corporate liabilities | | | 13,620 |
| Consolidated total liabilities | | | <u>46,230</u> |

Other information (For the year ended March 31, 2006)

| | Pearls <i>HK\$'000</i> | Property investment <i>HK\$'000</i> | Corporate and others <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|---------------------------|---|--|---------------------------------|
| Capital additions | 4,657 | 2,085 | — | 6,742 |
| Depreciation of property, plant and equipment | 6,442 | — | 101 | 6,543 |
| Amortization of prepaid land lease payments | 8 | — | 756 | 764 |
| Allowance for bad and doubtful debts | 286 | — | — | 286 |
| Increase in fair value of investment properties | — | 40 | — | 40 |
| Revaluation increase on buildings | — | — | 81 | 81 |
| Net unrealized gain on financial assets at fair value through profit or loss | — | — | 3,274 | 3,274 |
| | <hr/> | <hr/> | <hr/> | <hr/> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

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

| | Pearls <i>HK\$'000</i> <i>(Restated)</i> | Property investment <i>HK\$'000</i> <i>(Restated)</i> | Consolidated <i>HK\$'000</i> <i>(Restated)</i> |
|------------------------------------|---|--|---|
| Revenue | | | |
| External sales or rentals | 412,262 | 4,646 | 416,908 |
| Results | | | |
| Segment results | 45,123 | (1,673) | 43,450 |
| Unallocated other operating income | | | 3,107 |
| Unallocated corporate expenses | | | (4,524) |
| Profit from operations | | | 42,033 |
| Finance costs | | | (100) |
| Profit before taxation | | | 41,933 |
| Taxation | | | 85 |
| Profit for the year | | | 42,018 |

Balance sheet (At March 31, 2005)

| | Pearls <i>HK\$'000</i> <i>(Restated)</i> | Property investment <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> <i>(Restated)</i> |
|---------------------------------------|---|---|---|
| Assets | | | |
| Segment assets | 447,157 | 92,738 | 539,895 |
| Unallocated corporate assets | | | 56,535 |
| Consolidated total assets | | | 596,430 |
| Liabilities | | | |
| Segment liabilities | 28,217 | 1,948 | 30,165 |
| Unallocated corporate liabilities | | | 13,250 |
| Consolidated total liabilities | | | 43,415 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

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

| | Pearls | Property investment | Corporate and others | Consolidated |
|--|------------|---------------------|----------------------|--------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| | (Restated) | (Restated) | (Restated) | (Restated) |
| Capital additions | 8,536 | 1,473 | — | 10,009 |
| Depreciation of property, plant and equipment | 5,881 | — | 100 | 5,981 |
| Amortization of prepaid land lease payments | 8 | — | 756 | 764 |
| Impairment loss on investment securities | — | — | 856 | 856 |
| Allowance for bad and doubtful debts | 8,210 | 847 | — | 9,057 |
| Increase in fair value of investment properties | — | 3,146 | — | 3,146 |
| Revaluation increase on buildings | — | — | 30 | 30 |
| Impairment loss on property, plant and equipment | 2,617 | — | — | 2,617 |
| Net unrealized gain on listed other investments | — | — | 646 | 646 |

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, 2006 | Year ended March 31, 2005 | Year ended March 31, 2006 | Year ended March 31, 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 (Restated) |
| Hong Kong | 39,218 | 46,700 | 6,073 | 6,575 |
| North America | 109,467 | 145,099 | 10,991 | 17,061 |
| Europe | 133,469 | 122,674 | 10,592 | 12,013 |
| Japan | 42,773 | 46,145 | 6,055 | 6,930 |
| Other Asian countries | 36,901 | 41,016 | 2,169 | (975) |
| Others | 19,831 | 15,274 | 2,179 | 1,846 |
| | <u>381,659</u> | <u>416,908</u> | <u>38,059</u> | <u>43,450</u> |
| Unallocated other operating income | | | 12,210 | 3,107 |
| Unallocated corporate expenses | | | (3,453) | (4,524) |
| Profit from operations | | | <u>46,816</u> | <u>42,033</u> |

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)****Geographical segments (continued)**

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, 2006 <i>HK\$ '000</i> | Year ended March 31, 2005 <i>HK\$ '000</i> <i>(Restated)</i> | Year ended March 31, 2006 <i>HK\$ '000</i> | Year ended March 31, 2005 <i>HK\$ '000</i> |
| Hong Kong | 515,238 | 463,471 | 1,533 | 3,343 |
| PRC | 132,866 | 129,586 | 5,209 | 6,666 |
| | <u>648,104</u> | <u>593,057</u> | <u>6,742</u> | <u>10,009</u> |

6. INVESTMENT INCOME

| | 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> |
|--|--------------------------|--------------------------|
| Interest income | 6,674 | 978 |
| Dividends received from financial assets at fair value through profit or loss/other investments | 292 | 235 |
| Gain on disposal of financial assets at fair value through profit or loss | 706 | — |
| | <u>7,672</u> | <u>1,213</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

7. PROFIT FROM OPERATIONS

| | 2006 HK\$'000 | 2005 HK\$'000 (Restated) |
|---|------------------|--------------------------------|
| Profit from operations has been arrived at after charging/(crediting): | | |
| (a) Staff costs (including directors' emoluments): | | |
| Salaries, wages and other benefits | 43,573 | 46,521 |
| Contributions to defined contribution retirement plans | 901 | 981 |
| | <u>44,474</u> | <u>47,502</u> |
| (b) Other items | | |
| Allowance for bad and doubtful debts | 286 | 9,057 |
| Auditors' remuneration | 680 | 943 |
| Costs of inventories | 272,443 | 295,014 |
| Provision for inventories | 25,000 | 32,300 |
| Depreciation of property, plant and equipment | 6,543 | 5,981 |
| Amortization of prepaid land lease payments | 764 | 764 |
| Gain on disposal of property, plant and equipment and an investment property | (1) | (146) |
| Operating lease charges: | | |
| Hire of motor vehicle | 152 | — |
| Premises | 1,826 | 1,793 |
| Rental income from investment properties under operating leases (net of outgoings of HK\$253,000 (2005: HK\$124,000)) | <u>(3,109)</u> | <u>(4,522)</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

8. DIRECTORS' AND EMPLOYEES' REMUNERATION

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

(a) Directors' remuneration

| | Fees HK\$'000 | Salaries and other allowances HK\$'000 | Performance related incentive payment HK\$'000 | Retirement benefit contributions HK\$'000 | Approximate ratable value of a property for accommodation HK\$'000 | 2006 Total HK\$'000 |
|-----------------------------------|------------------|--|---|--|--|---------------------------|
| <i>Executive:</i> | | | | | | |
| Mr. Cheng Chung Hing | — | 3,000 | — | 12 | 920 | 3,932 |
| Mr. Cheng Tai Po | — | 3,000 | — | 12 | 21 | 3,033 |
| Ms. Yan Sau Man, Amy | — | 1,500 | 1,500 | 12 | — | 3,012 |
| <i>Independent non-executive:</i> | | | | | | |
| Mr. Lee Kang Bor, Thomas | 133 | — | — | — | — | 133 |
| Mr. Kiu Wai Ming, Kenneth | 108 | — | — | — | — | 108 |
| Mr. Lau Chi Wah, Alex | 108 | — | — | — | — | 108 |
| | <u>349</u> | <u>7,500</u> | <u>1,500</u> | <u>36</u> | <u>941</u> | <u>10,326</u> |

| | Fees HK\$'000 | Salaries and other allowances HK\$'000 | Performance related incentive payment HK\$'000 | Retirement benefit contributions HK\$'000 | Approximate ratable value of a property for accommodation HK\$'000 | 2005 Total HK\$'000 |
|-----------------------------------|------------------|--|---|--|--|---------------------------|
| <i>Executive:</i> | | | | | | |
| Mr. Cheng Chung Hing | — | 3,000 | — | 12 | 805 | 3,817 |
| Mr. Cheng Tai Po | — | 3,000 | — | 12 | 18 | 3,030 |
| Ms. Yan Sau Man, Amy | — | 1,500 | 1,500 | 12 | — | 3,012 |
| <i>Independent non-executive:</i> | | | | | | |
| Mr. Lee Kang Bor, Thomas | 120 | — | — | — | — | 120 |
| Mr. Alexander Reid Hamilton | 54 | — | — | — | — | 54 |
| Mr. Yuen Ka Lok, Ernest | 57 | — | — | — | — | 57 |
| Mr. Kiu Wai Ming, Kenneth | 59 | — | — | — | — | 59 |
| Mr. Lau Chi Wah, Alex | 66 | — | — | — | — | 66 |
| | <u>356</u> | <u>7,500</u> | <u>1,500</u> | <u>36</u> | <u>823</u> | <u>10,215</u> |

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three (2005: three) were directors of the Company whose emoluments are set out in note 8(a) above. The emoluments of the remaining two (2005: two) individuals are as follows:

| | 2006 HK\$'000 | 2005 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Salaries and other allowances | 2,144 | 1,982 |
| Retirement benefits contributions | 12 | 24 |
| | <u>2,156</u> | <u>2,006</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

8. DIRECTORS' AND EMPLOYEES' REMUNERATION (continued)**(b) Five highest paid individuals (continued)**

Their emoluments are within the following bands:

| | No. of employees | |
|--------------------------------|------------------|----------|
| | 2006 | 2005 |
| Up to HK\$1,000,000 | 1 | 1 |
| HK\$1,000,001 to HK\$1,500,000 | 1 | 1 |
| | <u>1</u> | <u>1</u> |

During the years ended March 31, 2006 and 2005, 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, 2006 and 2005, no directors waived any emoluments.

9. FINANCE COSTS

| | 2006 | 2005 |
|--|----------|------------|
| | HK\$'000 | HK\$'000 |
| Interest on bank borrowings wholly repayable within five years | — | 100 |
| | <u>—</u> | <u>100</u> |

10. TAXATION

| | 2006 | 2005 |
|------------------------------|--------------|------------------------|
| | HK\$'000 | HK\$'000 (Restated) |
| Current tax: | | |
| Hong Kong | 5,730 | 6,531 |
| PRC | 172 | — |
| | <u>5,902</u> | <u>6,531</u> |
| Overprovision in prior year: | | |
| Hong Kong | (6) | (277) |
| PRC | — | (482) |
| | <u>(6)</u> | <u>(759)</u> |
| Deferred tax: | | |
| Current year | (2,060) | (5,857) |
| | <u>3,836</u> | <u>(85)</u> |

Hong Kong Profits Tax is calculated at a rate of 17.5% of the estimated assessable profit for both years.

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

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

10. TAXATION (continued)

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

| | 2006 | 2005 |
|--|-----------------|-------------------|
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | <i>(Restated)</i> |
| Profit before taxation | 46,816 | 41,933 |
| Tax at the domestic income tax rate of 17.5% (2005: 17.5%) | 8,193 | 7,338 |
| Tax effect of expenses that are not deductible in determining taxable profit | 871 | 716 |
| Tax effect of income that is not taxable in determining taxable profit | (3,733) | (767) |
| Tax effect of utilization of tax loss not previously recognized | (1,136) | (923) |
| Tax effect of recognition of previously unrecognized tax losses | (530) | — |
| Tax effect of recognition of temporary difference not previously recognized | (221) | (6,796) |
| Tax effect of additional tax loss not recognized | 23 | 1,115 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | 151 | 275 |
| Overprovision in prior year | (6) | (759) |
| Others | 224 | (284) |
| Tax expense (credit) for the year | 3,836 | (85) |

Details of the deferred taxation are set out in note 19 to the financial statements.

11. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK\$5,145,000 (2005: HK\$930,000) which has been dealt with in the financial statements of the Company.

12. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders for the year of HK\$42,980,000 (2005 (restated): HK\$42,018,000) and on 1,000,740,000 (2005: 1,000,740,000) 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, 2006 and 2005.

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 1, 2005.

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***12. EARNINGS PER SHARE (continued)**

The adjustments to comparative earnings per share are as follows:

| | <i>HK cents</i> |
|--|-----------------|
| Reported figure before adjustments | 7.86 |
| Effect of adoption of HKFRSs | (3.24) |
| | <hr/> |
| Restated figure before bonus issue adjustments | 4.62 |
| Adjustment arising from the bonus issue | (0.42) |
| | <hr/> |
| Restated figure | <u>4.20</u> |

13. INVESTMENT PROPERTIES

| | The Group | |
|---|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| At fair value | | |
| At beginning of year | 77,650 | 153,760 |
| Disposal during the year | — | (71,600) |
| Transferred from (to) property, plant and equipment | 17,173 | (7,656) |
| Increase in fair value | <u>40</u> | <u>3,146</u> |
| At balance sheet date | <u>94,863</u> | <u>77,650</u> |

The Group's investment properties at March 31, 2006 were revalued by BMI Appraisals Limited, an independent firm of professional property valuers, on market value basis, at HK\$94,863,000. The increase in fair value amounted to HK\$40,000 of the investment properties has been credited to the income statement.

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

The carrying value of investment properties shown above comprises:

| | The Group | |
|---|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Land and buildings situated in Hong Kong and held under long leases | 31,490 | 29,050 |
| Land and buildings situated in the PRC and held under medium-term land use rights | <u>63,373</u> | <u>48,600</u> |
| | <u>94,863</u> | <u>77,650</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings <i>HKS '000</i> | Buildings <i>HKS '000</i> | Construction in progress <i>HKS '000</i> | Leasehold improvements <i>HKS '000</i> | Plant and machinery <i>HKS '000</i> | Furniture, fixtures and equipment <i>HKS '000</i> | Motor vehicles <i>HKS '000</i> | Total <i>HKS '000</i> |
|--|---|------------------------------|--|--|---|--|-----------------------------------|--------------------------|
| The Group | | | | | | | | |
| Cost or valuation | | | | | | | | |
| At April 1, 2004 | | | | | | | | |
| As previously reported | 78,100 | — | 21,926 | 14,273 | 12,707 | 11,360 | 4,577 | 142,943 |
| Effect of adoption of HKAS 17 | (47,640) | 16,780 | — | — | — | — | — | (30,860) |
| As restated | 30,460 | 16,780 | 21,926 | 14,273 | 12,707 | 11,360 | 4,577 | 112,083 |
| Currency realignment | — | — | (81) | 111 | 3 | (8) | 1 | 26 |
| 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 | — | — |
| Revaluation increase (decrease) | 18,540 | (1,214) | — | — | — | — | — | 17,326 |
| At March 31, 2005 | 49,000 | 32,799 | 15,088 | 13,657 | 15,564 | 12,761 | 5,056 | 143,925 |
| Currency realignment | — | — | 275 | 149 | 220 | 77 | 56 | 777 |
| Additions | — | — | 3,259 | 495 | 1,996 | 565 | 427 | 6,742 |
| Disposals | — | — | — | — | — | (77) | (1,364) | (1,441) |
| Transfer upon completion | — | 1,410 | (1,449) | — | 39 | — | — | — |
| Transferred to investment properties | — | — | (17,173) | — | — | — | — | (17,173) |
| Revaluation increase (decrease) | 10,800 | (225) | — | — | — | — | — | 10,575 |
| At March 31, 2006 | 59,800 | 33,984 | — | 14,301 | 17,819 | 13,326 | 4,175 | 143,405 |
| Comprising: | | | | | | | | |
| At cost | — | — | — | 14,301 | 17,819 | 13,326 | 4,175 | 49,621 |
| At valuation — 2006 | 59,800 | 33,984 | — | — | — | — | — | 93,784 |
| | 59,800 | 33,984 | — | 14,301 | 17,819 | 13,326 | 4,175 | 143,405 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

14. PROPERTY, PLANT AND EQUIPMENT (continued)

| | Leasehold land and buildings HK\$'000 | Buildings HK\$'000 | Construction in progress HK\$'000 | Leasehold improvements HK\$'000 | Plant and machinery HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Motor vehicles HK\$'000 | Total HK\$'000 |
|---------------------------------|--|-----------------------|---|---------------------------------------|------------------------------------|---|----------------------------|-------------------|
| The Group | | | | | | | | |
| Accumulated depreciation | | | | | | | | |
| At April 1, 2004 | | | | | | | | |
| As previously reported | — | — | — | 12,011 | 7,705 | 8,412 | 4,116 | 32,244 |
| Currency realignment | — | — | — | 11 | (28) | (14) | 1 | (30) |
| Provided for the year | 708 | 695 | — | 932 | 1,656 | 1,413 | 577 | 5,981 |
| Eliminated on disposals | — | — | — | (838) | (176) | (382) | (1,595) | (2,991) |
| Impairment loss | — | — | — | — | 2,617 | — | — | 2,617 |
| Eliminated on revaluation | (708) | (695) | — | — | — | — | — | (1,403) |
| At March 31, 2005 | — | — | — | 12,116 | 11,774 | 9,429 | 3,099 | 36,418 |
| Currency realignment | — | — | — | 146 | 180 | 28 | 40 | 394 |
| Provided for the year | 1,167 | 1,312 | — | 705 | 1,449 | 1,391 | 519 | 6,543 |
| Eliminated on disposals | — | — | — | — | — | (77) | (450) | (527) |
| Eliminated on revaluation | (1,167) | (1,312) | — | — | — | — | — | (2,479) |
| At March 31, 2006 | — | — | — | 12,967 | 13,403 | 10,771 | 3,208 | 40,349 |
| Net book value | | | | | | | | |
| At March 31, 2006 | 59,800 | 33,984 | — | 1,334 | 4,416 | 2,555 | 967 | 103,056 |
| At March 31, 2005 (Restated) | 49,000 | 32,799 | 15,088 | 1,541 | 3,790 | 3,332 | 1,957 | 107,507 |

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

| | The Group | |
|--|------------------|---------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Land and buildings situated in Hong Kong and held under medium-term leases | 64,110 | 53,330 |
| Buildings situated in the PRC and held under medium-term land use rights | 29,674 | 28,469 |
| | <u>93,784</u> | <u>81,799</u> |

The Group's leasehold land and buildings at March 31, 2006 were revalued by BMI Appraisals Limited, which is an independent firm of professional property valuers, on market value basis, at HK\$93,784,000. The revaluation increase arising from revaluation of the leasehold land and buildings amounted to HK\$13,054,000, of which HK\$12,973,000 has been credited to other property revaluation reserve and HK\$81,000 has been credited to the income statement respectively.

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\$52,922,000. (2005 (restated): HK\$52,307,000).

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***15. PREPAID LAND LEASE PAYMENTS**

| | The Group | |
|-------------------------------|------------------|-------------------------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> (Restated) |
| At beginning of year | | |
| As previously reported | — | — |
| Effect of adoption of HKAS 17 | 32,794 | 33,558 |
| | <hr/> | <hr/> |
| As restated | 32,794 | 33,558 |
| Amortization | (764) | (764) |
| | <hr/> | <hr/> |
| At balance sheet date | <u>32,030</u> | <u>32,794</u> |

| | The Group | |
|--|------------------|-------------------------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> (Restated) |
| The net book value are analyzed as follows: | | |
| Situated in Hong Kong held under medium-term leases | 31,769 | 32,525 |
| Situated in the PRC held under medium-term land use rights | 261 | 269 |
| | <hr/> | <hr/> |
| | <u>32,030</u> | <u>32,794</u> |

The cost is amortized over the lease period. The amount to be amortized within the next twelve months after the balance sheet date amounted to HK\$764,000 (2005: HK\$764,000).

16. INTEREST IN AN ASSOCIATE

| | The Group | |
|--------------------------|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost | — | — |
| Due from an associate | 1,692 | — |
| | <hr/> | <hr/> |
| | <u>1,692</u> | <u>—</u> |

The amount due from an associate is unsecured, interest-free and has no fixed repayment terms.

Investment in an associate represents 49% of the issued ordinary share capital of China Pearls and Jewellery City Holdings Limited, a company engaged in investment holding which is incorporated in Hong Kong.

The Group has not recognized losses and accumulated losses amounting to HK\$603,757 (2005: Nil) for the associate that exceed its equity interest.

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***17. INTEREST IN SUBSIDIARIES**

| | The Company | |
|--------------------------|--------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted shares, at cost | 206,664 | 206,664 |
| Due from subsidiaries | 134,294 | 135,658 |
| | <u>340,958</u> | <u>342,322</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, interest-free and have no fixed repayment terms.

Details of the Company's subsidiaries at March 31, 2006 are set out in note 38 to the financial statements.

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

| | The Group | |
|--|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Unlisted investments in the PRC, at cost | 5,586 | 5,586 |
| Impairment loss | (5,586) | (5,586) |
| | <u>—</u> | <u>—</u> |

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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

19. 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 <i>HK\$ '000</i> <i>(Restated)</i> | Accelerated tax depreciation <i>HK\$ '000</i> <i>(Restated)</i> | Tax losses <i>HK\$ '000</i> <i>(Restated)</i> | Unrealized profit in inventories <i>HK\$ '000</i> | Total <i>HK\$ '000</i> <i>(Restated)</i> |
|--|---|---|---|--|--|
| The Group | | | | | |
| At April 1, 2004 | | | | | |
| As previously reported | 14,849 | 1,459 | (1,198) | (3,522) | 11,588 |
| Effect on adoption of HKAS 17 & HKAS-Int 21 | (1,922) | (1,653) | 1,198 | — | (2,377) |
| At restated | 12,927 | (194) | — | (3,522) | 9,211 |
| (Credit) Charge to income for the year | (5,850) | 851 | (37) | (821) | (5,857) |
| Charge to equity for the year | 2,227 | — | — | — | 2,227 |
| At March 31, 2005 | 9,304 | 657 | (37) | (4,343) | 5,581 |
| Charge (Credit) to income for the year | 372 | (548) | (552) | (1,332) | (2,060) |
| Charge to equity for the year | 2,245 | — | — | — | 2,245 |
| At March 31, 2006 | <u>11,921</u> | <u>109</u> | <u>(589)</u> | <u>(5,675)</u> | <u>5,766</u> |
| The Company | | | | | |
| At April 1, 2004 and at April 1, 2005 | — | — | — | — | — |
| Credit to income for the year | — | — | (530) | — | (530) |
| At March 31, 2006 | <u>—</u> | <u>—</u> | <u>(530)</u> | <u>—</u> | <u>(530)</u> |

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

| | The Group 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> <i>(Restated)</i> | The Company 2006 <i>HK\$ '000</i> | 2005 <i>HK\$ '000</i> |
|--------------------------|---------------------------------------|---|---|--------------------------|
| Deferred tax liabilities | 10,866 | 8,954 | — | — |
| Deferred tax assets | (5,100) | (3,373) | (530) | — |
| | <u>5,766</u> | <u>5,581</u> | <u>(530)</u> | <u>—</u> |

At March 31, 2006, the Group has unused tax losses of HK\$18,272,000 (2005: HK\$24,502,000) available for offset against future profits. A deferred tax asset has been recognized in respect of HK\$3,371,000 (2005: HK\$216,000) of such losses. No deferred tax asset has been recognized in respect to the remaining HK\$14,901,000 (2005: HK\$24,286,000) due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

19. DEFERRED TAXATION (continued)

At March 31, 2006, the Group also has deductible temporary differences of HK\$35,336,000 (2005: HK\$28,019,000) attributable to unrealized profit in inventories. A deferred tax asset has been recognized in respect of HK\$33,027,000 (2005: HK\$25,501,000) of such deductible temporary differences. No deferred tax asset has been recognized in respect of the remaining HK\$2,309,000 (2005: HK\$2,518,000) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

20. INVENTORIES

| | The Group | |
|------------------|------------------|------------------|
| | 2006 | 2005 |
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| Raw materials | 11,838 | 18,037 |
| Work in progress | 6,154 | 14,520 |
| Finished goods | 37,878 | 50,148 |
| | <u>55,870</u> | <u>82,705</u> |

The amount of inventories, included in above, carried at fair value less costs to sell is HK\$46,049,000 (2005: HK\$60,778,000).

21. TRADE AND OTHER RECEIVABLES

| | The Group | |
|---|------------------|------------------|
| | 2006 | 2005 |
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| Trade receivables | 47,330 | 47,450 |
| Deposits, prepayments and other debtors | 11,123 | 7,179 |
| | <u>58,453</u> | <u>54,629</u> |

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 with the following ageing analysis after credit period as of the balance sheet date:

| | The Group | |
|-------------|------------------|------------------|
| | 2006 | 2005 |
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| 0–60 days | 43,479 | 46,595 |
| 61–120 days | 3,851 | 855 |
| | <u>47,330</u> | <u>47,450</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

22. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS/OTHER INVESTMENTS

| | The Group and the Company | |
|--|---------------------------|----------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Trading securities, at market value: | | |
| Listed equity investments in Hong Kong | 15,560 | 8,422 |

23. CASH AND CASH EQUIVALENTS

| | The Group | | The Company | |
|---|----------------|----------------|--------------|--------------|
| | 2006 | 2005 | 2006 | 2005 |
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Bank balances and cash | 46,289 | 162,367 | 254 | 3,449 |
| Time deposits | 237,856 | 66,748 | 4,126 | 3,974 |
| Short-term deposits with other financial institutions | 2,435 | 235 | 2,435 | 235 |
| | <u>286,580</u> | <u>229,350</u> | <u>6,815</u> | <u>7,658</u> |

24. TRADE AND OTHER PAYABLES

| | The Group | |
|-------------------------------------|---------------|---------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| Trade payables | 11,477 | 8,588 |
| Accrued charges and other creditors | 21,792 | 21,967 |
| | <u>33,269</u> | <u>30,555</u> |

Included in trade and other payables of the Group are trade payables with the following ageing analysis after credit period as of the balance sheet date:

| | The Group | |
|-------------|---------------|--------------|
| | 2006 | 2005 |
| | HK\$'000 | HK\$'000 |
| 0-60 days | 9,461 | 8,270 |
| 61-120 days | 1,268 | 315 |
| > 120 days | 748 | 3 |
| | <u>11,477</u> | <u>8,588</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

25. DUE TO IMMEDIATE HOLDING COMPANY

The amount due is unsecured, interest-free and has no fixed repayment terms. 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. The directors consider the carrying amount of the balance due approximates its fair value.

26. SHARE CAPITAL

| | Number of shares | | Share capital | |
|--------------------------------------|------------------|--------------|------------------|------------------|
| | 2006 '000 | 2005 '000 | 2006 HK\$'000 | 2005 HK\$'000 |
| Ordinary shares of HK\$0.10 each | | | | |
| Authorized: | 1,500,000 | 1,500,000 | 150,000 | 150,000 |
| Issued and fully paid: | | | | |
| At beginning of the year | 909,764 | 827,058 | 90,977 | 82,706 |
| Bonus issue of share (<i>Note</i>) | 90,976 | 82,706 | 9,097 | 8,271 |
| At balance sheet date | 1,000,740 | 909,764 | 100,074 | 90,977 |

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 under the bonus issue 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.

27. SHARE OPTION SCHEMES

- (a) On August 2, 2002, the Company adopted a new share option scheme (the "2002 Scheme") and terminated the one adopted on September 8, 1997 (the "1997 Scheme").

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.

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***27. SHARE OPTION SCHEMES (continued)**

(a) (continued)

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 during the year ended March 31, 2006. On May 2, 2006, the Company granted 48,000,000 stock options to the directors and employees of the Company. The exercise price of each stock option is HK\$0.253, which is determined by the arithmetic average of the closing price of the Company's shares for each of the five trading days immediately prior to and including May 2, 2006.

(b) 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 unless terminated earlier by board of directors of MSH. However, as a condition to list shares of its common stock on the American Stock Exchange ("AMEX"), MSH undertakes to terminate the Plan during the year ended March 31, 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 1,250,000 shares, which was subsequently revised to 2,500,000 shares, as adjusted by the anti-dilution 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).

On July 22, 2005, the board of directors of MSH has approved a five-for-four stock split effected in the form of a stock dividend. As a result, the share and per share data has been restated to reflect the capital structure subsequent to the five-for-four stock split, which become effective on August 5, 2005.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

27. SHARE OPTION SCHEMES (continued)

(b) (continued)

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, 2006 and 2005:

| | Date of grant | Exercise price per share US\$ | Outstanding at April 1, 2004 | Exercised during the year ended March 31, 2005 | Outstanding at March 31, 2005 | Exercised during the year ended March 31, 2006 | Outstanding at March 31, 2006 |
|-----------------|--------------------|----------------------------------|------------------------------|--|-------------------------------|--|-------------------------------|
| Directors | September 16, 1997 | 0.976 | 375,000 | — | 375,000 | (375,000) | — |
| | March 26, 2003 | 0.88 | 312,500 | — | 312,000 | (312,500) | — |
| | | | 687,500 | — | 687,500 | | |
| Other employees | September 16, 1997 | 0.976 | 187,500 | (62,500) | 125,000 | (125,000) | — |
| | | | 875,000 | (62,500) | 812,500 | (812,500) | — |

For stock options granted on September 16, 1997, the holders can subscribe for the shares of common stock at a subscription price of US\$0.976 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\$0.88 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 will expire on March 25, 2013.

All the outstanding stock options have been exercised during the year ended March 31, 2006. No options were available for future grant as of March 31, 2006 as the plan was terminated during the year.

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

28. RESERVES

| | Share premium HK\$'000 | Contributed surplus HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 |
|---|---------------------------|---------------------------------|---------------------------------|-------------------|
| The Company | | | | |
| At April 1, 2004 | 68,209 | 206,459 | 84 | 274,752 |
| Capitalization on bonus issue of shares | (8,271) | — | — | (8,271) |
| Profit for the year | — | — | 930 | 930 |
| At March 31, 2005 | 59,938 | 206,459 | 1,014 | 267,411 |
| Capitalization on bonus issue of shares | (9,097) | — | — | (9,097) |
| Profit for the year | — | — | 5,145 | 5,145 |
| At March 31, 2006 | 50,841 | 206,459 | 6,159 | 263,459 |

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

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

28. RESERVES (continued)

- (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, 2006 amounted to HK\$212,618,000 (2005: HK\$207,473,000), which represents the aggregate of contributed surplus of HK\$206,459,000 (2005: HK\$206,459,000) and accumulated profits of HK\$6,159,000 (2005: HK\$1,014,000).

29. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

During the normal course of the Group's business, the Group is exposed to a variety of financial risks, including foreign currency risk, credit risk and liquidity risk. The board of directors generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to a minimum. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely and effective manner. The policies on how to monitor and control these risks are set out below:

Foreign currency risk

Most of the Group's business transactions including sales and purchases are denominated in Hong Kong dollars and United States dollars, in which the Group considers there is no significant exposure to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has a credit limit policy in place and exposures to credit risk are monitored on an ongoing basis. In order to minimize credit risk, the management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure appropriate actions are taken to recover overdue debts.

At the balance sheet date, the Group has a certain concentration of credit risk as 42% (2005: 36%) and 60% (2005: 56%) of the total trade receivables was due from the Group's two largest receivable balances and the five largest receivable balances respectively.

Liquidity risk

The Group continues to enjoy financing for its operations by internally generated cash flows. The Group maintained its gearing ratio at zero and the Group will have sufficient financial resources to meet its commitments and working capital requirements.

Interest rate risk

The Group has minimum exposure to interest rate risk.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

30. PLEDGE OF ASSETS

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

| | The Group | |
|---|------------------|-------------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| | | <i>(Restated)</i> |
| Carrying amount of leasehold land and buildings | 93,046 | 82,952 |
| Carrying amount of investment properties | 11,200 | 10,400 |
| | <u>104,246</u> | <u>93,352</u> |

31. CAPITAL COMMITMENT

| | The Group | |
|--|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements | <u>1,312</u> | <u>3,568</u> |

As at March 31, 2006, the Group had capital commitments of HK\$76,440,000 in relation of capital injection to an associate for the development of the Zhuji Jewellery City Project.

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

32. OPERATING LEASE ARRANGEMENTS**The Group as lessee**

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

| | The Group | |
|---------------------------------------|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Operating leases which expire: | | |
| Within one year | 581 | 1,773 |
| In the second to fifth year inclusive | 228 | 431 |
| | <u>809</u> | <u>2,204</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.

Notes to the Financial Statements (continued)*For the year ended March 31, 2006***32. OPERATING LEASE ARRANGEMENTS (continued)****The Group as lessor**

Property rental income earned during the year was HK\$3,362,000 (2005: HK\$4,646,000). 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 | |
|---------------------------------------|------------------|-----------------|
| | 2006 | 2005 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Within one year | 3,474 | 3,282 |
| In the second to fifth year inclusive | 3,676 | 3,659 |
| Over five years | 204 | 509 |
| | 7,354 | 7,450 |
| | 7,354 | 7,450 |

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

33. 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. No banking facilities have been utilized by the subsidiaries at the balance sheet date.

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

34. 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 consolidated 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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

35. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions, which were carried out in the ordinary course of the Group's business.

| Related party relationship | Nature of transaction | 2006 | 2005 |
|---|--|----------|----------|
| | | HK\$'000 | HK\$'000 |
| Key management personnel including directors as disclosed in note 8 | Salaries and other short-term benefits | 12,482 | 12,221 |
| An entity which is significantly influenced by key management personnels of the Company | Professional fees paid | 493 | 237 |
| | Reimbursement for salaries of staff who have provided services to the entity | 582 | 554 |
| | Sale of goods | 313 | 636 |
| | Rental expenses paid | 152 | — |
| | Disposal of a motor vehicle at net book value | 914 | — |

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

36. 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\$901,000 (2005: HK\$981,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

37. COMPARATIVE FIGURES

As further explained in note 2 to the financial statements, due to the adoption of HKFRSs during the year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments and opening balance adjustments have been made and related comparative amounts have been restated.

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

38. PARTICULARS OF SUBSIDIARIES

Particulars of the Company's subsidiaries at March 31, 2006 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 |
| Man Sang China Investment Limited | Hong Kong | Ordinary shares HK\$1 | 100% | Inactive |
| 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 investment |
| 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 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2006

38. PARTICULARS OF SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation or registration/ operation | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|------------------------------------|---|---|---|--|
| 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 |
| Smartest Man Holdings Limited | British Virgin Islands/ Hong Kong | Ordinary shares US\$1 | 100% | Investment holding |
| 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 |

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 enterprises.

(iv) 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>71,513</u> | <u>37,180</u> |
| Earnings per share | | | |
| Basic | 11 | <u>7.86 cents</u> | <u>4.09 cents</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 | <i>12</i> | 77,650 | 153,760 |
| Property, plant and equipment | <i>13</i> | 143,545 | 110,699 |
| Investment securities | <i>15</i> | — | 856 |
| Deferred tax assets | <i>16</i> | 3,528 | 3,649 |
| | | <u>224,723</u> | <u>268,964</u> |
| Current assets | | | |
| Inventories | <i>17</i> | 82,705 | 115,297 |
| Trade and other receivables | <i>18</i> | 54,629 | 79,626 |
| Other investments | <i>19</i> | 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 | <i>20</i> | 30,555 | 38,296 |
| Taxation | | 1,661 | 1,560 |
| Secured bank borrowings, current portion | <i>21</i> | — | 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 | <i>22</i> | 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 | <i>21</i> | — | 6,016 |
| Amount due to immediate holding company | <i>25</i> | 2,245 | 6,000 |
| Deferred tax liabilities | <i>16</i> | 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 | <i>14</i> | <u>342,322</u> | <u>338,824</u> |
| Current assets | | | |
| Other receivables | | 226 | 236 |
| Other investments | <i>19</i> | 8,422 | 7,776 |
| Bank balances and cash | | <u>7,658</u> | <u>10,852</u> |
| | | <u>16,306</u> | <u>18,864</u> |
| Current liability | | | |
| Other payables | | <u>240</u> | <u>230</u> |
| Net current assets | | | |
| | | <u>16,066</u> | <u>18,634</u> |
| | | <u><u>358,388</u></u> | <u><u>357,458</u></u> |
| Capital and reserves | | | |
| Share capital | <i>22</i> | 90,977 | 82,706 |
| Reserves | <i>24</i> | <u>267,411</u> | <u>274,752</u> |
| | | <u><u>358,388</u></u> | <u><u>357,458</u></u> |

Consolidated Statement of Changes in Equity

For the year ended March 31, 2005

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other non-distributable reserve <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Investment property revaluation reserve <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Accumulated profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|----------------------------------|----------------------------------|--|-----------------------------------|--|---|--|--|--------------------------|
| 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> |

Consolidated Statement of Changes in Equity (continued)*For the year ended March 31, 2005*

| | Share capital <i>HK\$'000</i> | Share premium <i>HK\$'000</i> | Other non-distributable reserve <i>HK\$'000</i> | Merger reserve <i>HK\$'000</i> | Investment property revaluation reserve <i>HK\$'000</i> | Other property revaluation reserve <i>HK\$'000</i> | Translation reserve <i>HK\$'000</i> | Accumulated profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|----------------------------------|----------------------------------|--|-----------------------------------|--|---|--|--|--------------------------|
| 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 | 2004 |
|---|------------------|------------------|
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> |
| 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/> |

Consolidated Cash Flow Statement (continued)*For the year ended March 31, 2005*

| | <i>Note</i> | 2005 <i>HK\$ '000</i> | 2004 <i>HK\$ '000</i> |
|---|-------------|---------------------------------|---------------------------------|
| 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.

Notes to the Financial Statements (continued)*For the year ended March 31, 2005***3. SIGNIFICANT ACCOUNTING POLICIES (continued)****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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**Property, plant and equipment (continued)**

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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

3. SIGNIFICANT ACCOUNTING POLICIES (continued)**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.

Notes to the Financial Statements (continued)*For the year ended March 31, 2005***3. SIGNIFICANT ACCOUNTING POLICIES (continued)****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 jewelry 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 | | | 71,513 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

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 | | | 599,829 |
| Liabilities | | | |
| Segment liabilities | 28,217 | 1,948 | 30,165 |
| Unallocated corporate liabilities | | | 20,679 |
| Consolidated total liabilities | | | 50,844 |

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 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

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

| | Pearls <i>HK\$'000</i> | Property investment <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|------------------------------------|---------------------------|---|---------------------------------|
| Revenue | | | |
| External sales or rentals | 382,123 | 6,220 | 388,343 |
| 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 | | | 37,180 |

Balance Sheet (At March 31, 2004)

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

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)

Business segments (continued)

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> | <u>79,175</u> | <u>34,416</u> |
| Unallocated other operating income | | | 3,107 | 10,239 |
| Unallocated corporate expenses | | | (4,524) | (3,293) |
| Profit from operations | | | <u>77,758</u> | <u>41,362</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

5. BUSINESS AND GEOGRAPHICAL SEGMENTS (continued)**Business segments (continued)**

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 | Year ended March 31, 2004 | Year ended March 31, 2005 | Year ended March 31, 2004 |
| | HK\$ '000 | HK\$ '000 | HK\$ '000 | 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 HK\$ '000 | 2004 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 HK\$ '000 | 2004 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> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

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 HK\$'000 | 2004 HK\$'000 |
|---|------------------|------------------|
| Fees: | | |
| Executive | — | — |
| Independent non-executive | 356 | 331 |
| | <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>1</u> | <u>1</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 HK\$'000 | 2004 HK\$'000 |
|-----------------------------------|------------------|------------------|
| Salaries and other allowances | 1,982 | 2,165 |
| Retirement benefits contributions | 24 | 21 |
| | <u>2,006</u> | <u>2,186</u> |

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (continued)**(b) Employees' emoluments (continued)**

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 |

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 | 100 | 380 |

10. TAXATION

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

Notes to the Financial Statements (continued)*For the year ended March 31, 2005***10. TAXATION (continued)**

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

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|---|--------------------------------|--------------------------------|
| 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:

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

Notes to the Financial Statements (continued)*For the year ended March 31, 2005***12. INVESTMENT PROPERTIES**

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

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

13. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold land and buildings HK\$ '000 | Construction in progress HK\$ '000 | Leasehold improvements 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 | <u>117,837</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>—</u> | <u>117,837</u> |
| | <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> |

Notes to the Financial Statements (continued)*For the year ended March 31, 2005***13. PROPERTY, PLANT AND EQUIPMENT (continued)**

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

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

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

15. INVESTMENT SECURITIES (continued)

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 year current and prior reporting periods.

| | Revaluation of properties <i>HK\$'000</i> | Accelerated tax depreciation <i>HK\$'000</i> | Tax losses <i>HK\$'000</i> | Unrealized profit in inventories <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|--|---|--|-------------------------------|--|--------------------------|
| 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) |
| 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 |
| At March 31, 2005 | <u>15,743</u> | <u>1,493</u> | <u>(38)</u> | <u>(4,343)</u> | <u>12,855</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:

| | 2005 <i>HK\$'000</i> | 2004 <i>HK\$'000</i> |
|--------------------------|-------------------------|-------------------------|
| Deferred tax liabilities | 16,383 | 15,237 |
| Deferred tax assets | <u>(3,528)</u> | <u>(3,649)</u> |
| | <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 of 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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

16. DEFERRED TAXATION (continued)

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

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

19. OTHER INVESTMENTS

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

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

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 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 | 2004 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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> |

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

22. SHARE CAPITAL

| | Number of shares | | Share capital | |
|----------------------------------|-------------------------|------------------|----------------------|-----------------|
| | 2005 | 2004 | 2005 | 2004 |
| | <i>'000</i> | <i>'000</i> | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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 par passu with the then existing shares in all respects.

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

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 the 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 option 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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

23. SHARE OPTION SCHEMES (continued)

(b) (continued)

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:

| | | | Outstanding at April 1, 2003 and March 31, 2004 | Exercised during the year ended March 31, 2005 | Outstanding at March 31, 2005 |
|-----------------|----------------------|-------------------------------------|--|---|--|
| | Date of grant | Exercise price per share | | | |
| | | <i>US\$</i> | | | |
| 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 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

23. SHARE OPTION SCHEMES (continued)

(c) (continued)

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.

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 <i>HK\$'000</i> | Contributed surplus <i>HK\$'000</i> | Accumulated (losses) profits <i>HK\$'000</i> | Total <i>HK\$'000</i> |
|---|----------------------------------|---|--|--------------------------|
| 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 |
| | <u>68,209</u> | <u>206,459</u> | <u>84</u> | <u>274,752</u> |
| Balance at March 31, 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 |
| | <u>59,938</u> | <u>206,459</u> | <u>1,014</u> | <u>267,411</u> |
| 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.

Notes to the Financial Statements (continued)*For the year ended March 31, 2005***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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| 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>(1,945)</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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Bank balances and cash acquired | — | 373 |
| | <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 |
| | <i>HK\$'000</i> | <i>HK\$'000</i> |
| Carrying amount of leasehold land and buildings | 84,800 | 74,980 |
| Carrying amount of investments properties | 10,400 | 132,662 |
| | <u>95,200</u> | <u>207,642</u> |

28. CAPITAL COMMITMENT

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

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

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

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 |
| | 2,204 | 454 |
| | 2,204 | 454 |

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 | — |
| | 7,450 | 6,518 |
| | 7,450 | 6,518 |

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.

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

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 jewelry 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 (“MFP 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.

Notes to the Financial Statements (continued)*For the year ended March 31, 2005***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 |
| 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 |

Notes to the Financial Statements (continued)

For the year ended March 31, 2005

34. PARTICULARS OF SUBSIDIARIES (continued)

| Name of subsidiary | Place of incorporation or registration/ operation | Issued and fully paid share capital/ registered capital | Proportion of nominal value of issued capital/ registered capital held by the Company | Principal activities |
|------------------------------------|---|--|---|---|
| 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.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE ENLARGED GROUP

The accompanying unaudited pro forma combined balance sheet of the Enlarged Group (being the Group immediately after the completion of the acquisition (the “Acquisition”) of 6% of the total entire issued capital of China Pearls and Jewellery City Holdings Limited (“HK Company”) and its subsidiary (the “CP&J Group”) and the assignment of loan) has been prepared to illustrate the effect of the Acquisition.

The unaudited pro forma combined balance sheet of the Enlarged Group has been prepared in accordance with Rule 4.29 of the Listing Rules for the purpose of illustrating the effect of the Acquisition as if it has been completed on September 30, 2006.

The unaudited pro forma combined balance sheet of the Enlarged Group is based on the unaudited consolidated balance sheet as at September 30, 2006 of the Group and the audited consolidated balance sheet December 31, 2006 of China Pearls and Jewellery City Holdings Limited as set out in Appendix II and I respectively to this Circular and after making pro forma adjustments relating to the Acquisition that are directly attributable to the transactions and factually supportable.

The unaudited pro forma combined balance sheet is based on a number of assumptions. Accordingly, the accompanying unaudited pro forma combined balance sheet of the Enlarged Group does not purport to describe the actual financial position of the Enlarged Group that would have been attained had the Acquisition been completed on September 30, 2006. Furthermore, the unaudited pro forma combined balance sheet does not purport to predict the Enlarged Group’s future financial position and results.

The unaudited pro forma combined balance sheet has been prepared by the Directors for illustrative purposes only and because of its nature, it may not give a true picture of the financial position of the Enlarged Group following the completion of the Acquisition.

APPENDIX III
**UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE ENLARGED GROUP**
UNAUDITED PRO FORMA COMBINED BALANCE SHEET OF THE ENLARGED GROUP
As at September 30, 2006

| | The Group: Unaudited consolidated balance sheet as at September 30, 2006 | CP&J Group: Audited consolidated balance sheet as at December 31, 2006 | Pro forma adjustments | <i>Note</i> | Enlarged Group |
|--|---|---|----------------------------------|----------------|-----------------------|
| | <i>HK\$ '000</i> | <i>HK\$ '000</i> | <i>HK\$ '000</i> | | <i>HK\$ '000</i> |
| Non-current assets | | | | | |
| Investment properties | 94,863 | — | | | 94,863 |
| Property, plant and equipment | 101,042 | 153,137 | 142,940 | <i>1(i)</i> | 397,119 |
| Prepaid land lease payments | 31,648 | — | | | 31,648 |
| Interest in an associate | 86,459 | — | (86,459) | <i>3</i> | — |
| Goodwill | — | — | 45,360 | <i>1</i> | 45,360 |
| Deferred tax assets | 5,504 | — | | | 5,504 |
| | <u>319,516</u> | <u>153,137</u> | | | <u>574,494</u> |
| Current assets | | | | | |
| Inventories | 41,824 | — | | | 41,824 |
| Trade and other receivables | 92,149 | 31,485 | | | 123,634 |
| Financial assets at fair value through profit or loss | 15,732 | — | | | 15,732 |
| Tax receivable | 708 | — | | | 708 |
| Bank balances and cash | 223,097 | 123,538 | (61,000) | <i>1</i> | 285,635 |
| | <u>373,510</u> | <u>155,023</u> | | | <u>467,533</u> |
| Current liabilities | | | | | |
| Trade and other payables | 31,251 | 269,441 | (79,200) | <i>2</i> | 124,473 |
| | | | (97,019) | <i>1&3</i> | |
| Bank borrowings (secured) | — | 19,930 | | | 19,930 |
| Taxation | 1,641 | — | | | 1,641 |
| | <u>32,892</u> | <u>289,371</u> | | | <u>146,044</u> |
| Net current assets (liabilities) | <u>340,618</u> | <u>(134,348)</u> | | | <u>321,489</u> |
| Total assets less current liabilities | <u>660,134</u> | <u>18,789</u> | | | <u>895,983</u> |
| Non-current liabilities | | | | | |
| Amount due to an immediate holding company | 10,484 | — | | | 10,484 |
| Long-term bank borrowings (secured) | — | 29,895 | | | 29,895 |
| Deferred tax liabilities | 11,239 | — | 47,170 | <i>1(ii)</i> | 58,409 |
| | <u>21,723</u> | <u>29,895</u> | | | <u>98,788</u> |
| Net assets (liabilities) | <u>638,411</u> | <u>(11,106)</u> | | | <u>797,195</u> |
| Capital and reserves | | | | | |
| Share capital | 100,074 | — | | | 100,074 |
| Reserves | 538,337 | (11,106) | 142,940 | <i>1(i)</i> | 579,822 |
| | | | (47,170) | <i>1(ii)</i> | |
| | | | (5,080) | <i>1</i> | |
| | | | (38,099) | <i>2</i> | |
| | <u>638,411</u> | <u>(11,106)</u> | | | <u>679,896</u> |
| Minority interests | — | — | 38,099 | <i>2</i> | 117,299 |
| | | | 79,200 | <i>2</i> | |
| Total equity | <u>638,411</u> | <u>(11,106)</u> | | | <u>797,195</u> |

Notes to the unaudited pro forma combined balance sheet of the Enlarged Group:

1. Pursuant to the conditional share sale and purchase agreement on March 8, 2007 in relation to the Acquisition, the total consideration for the Acquisition is HK\$60,000,000, representing the 6% of total issued share capital of HK Company of HK\$49,440,000 and the assignment of the loan due to the Vendor by HK Company of HK\$10,560,000. The total consideration of HK\$60,000,000 will be satisfied by cash, and the estimated direct legal and professional costs are approximately HK\$1,000,000. Under Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, the Group will apply purchase method to account for the Acquisition in the pro forma combined balance sheet.

| | | As at December 31, 2006 |
|--|------|------------------------------------|
| | | <i>HK\$'000</i> |
| Net liabilities of CP&J Group | | (11,106) |
| Estimated fair value adjustments on property, plant and equipment | (i) | 142,940 |
| Deferred tax liabilities recognized in respect of fair value adjustments | (ii) | (47,170) |
| | | <hr/> |
| Total fair value of net assets | | 84,664 |
| | | <hr/> |
| 6% of fair value of net assets acquired by the Group | | 5,080 |
| Loan assigned | | 10,560 |
| Goodwill | | 45,360 |
| | | <hr/> |
| | | 61,000 |
| | | <hr/> <hr/> |
| Total consideration and direct costs: | | |
| Cash consideration | | 60,000 |
| Direct costs | | 1,000 |
| | | <hr/> |
| | | 61,000 |
| | | <hr/> <hr/> |

- (i) The adjustment represents the estimated fair value on property, plant and equipment which is made by reference to the valuation of properties of CP&J Group undertaken by an independent valuer on February 28, 2007.
- (ii) The adjustment represents the deferred tax liabilities attributable to the fair value adjustment of the property interests.
2. The adjustment is to reflect the share of the total fair value of net assets by the minority shareholders of HK\$38,099,000. In addition, the reclassification of the shareholders' loans of HK\$79,200,000 to minority interests has been included as a result of the Acquisition.
3. The adjustment represents the elimination of intercompany balances between the Group and CP&J Group as if CP&J Group became a subsidiary of the Group.

B. LETTER FROM THE REPORTING ACCOUNTANTS

The following is the text of a report, prepared for the sole purpose of inclusion in the circular, received from the independent reporting accountants, Moores Rowland Mazars, Chartered Accountants, Certified Public Accountants, Hong Kong.

Moores Rowland Mazars

摩斯倫 · 馬賽 會計師事務所

March 30, 2007

The Board of Directors
Man Sang International Limited

Dear Sirs,

We report on the unaudited pro forma financial information of Man Sang International Limited (the “Company”) and its subsidiaries (hereinafter collectively referred to as the “Group”) together with China Pearls and Jewellery City Holdings Limited (“HK Company”) and its subsidiary (hereinafter collectively referred to as “CP&J Group”) (together with the Group hereinafter referred to as the “Enlarged Group”) set out in Section A of Appendix III (“Unaudited Pro Forma Financial Information”) to the circular of the Company dated March 30, 2007 in connection with the proposed acquisition of 6% of the total issued share capital of HK Company and the assignment of loan (the “Acquisition”). The Unaudited Pro Forma Financial Information has been prepared by the directors of the Company for illustrative purpose only, to provide information about how the Acquisition might have affected the historical financial information in respect of the Group, for inclusion in Appendix III of the circular dated March 30, 2007 issued by the Company.

The basis of preparation of the Unaudited Pro Forma Financial Information is set out in Section A of Appendix III to the circular.

Respective responsibilities of the directors of the Company and the reporting accountants

It is the responsibility solely of the directors of the Company to prepare the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) and with reference to Accounting Guideline 7 “Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars” issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”).

It is our responsibility to form an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion solely to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

Basis of opinion

We conducted our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 300 “Accountants’ Reports on Pro Forma Financial Information in Investment Circulars” issued by the HKICPA. Our work consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Unaudited Pro Forma Financial Information with the directors of the Company. This engagement did not involve independent examination of any of the underlying financial information. Our work did not constitute an audit or review made in accordance with Hong Kong Standards on Auditing or Hong Kong Standards on Review Engagement issued by the HKICPA, and accordingly, we do not express any such audit or review assurance on the Unaudited Pro Forma Financial Information.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated, that such basis is consistent with the accounting policies of the Group and that the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

The Unaudited Pro Forma Financial Information is for illustrative purpose only, based on the judgments and assumptions made by the directors of the Company, and, because of its hypothetical nature, does not provide any assurance or indication that any event will take place in the future and may not be indicative of the financial position of the Group as at September 30, 2006 or any future date.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly complied by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

Yours faithfully,

Moores Rowland Mazars
Chartered Accountants
Certified Public Accountants
Hong Kong

The following is the text of the letter and valuation certificate received from DTZ Debenham Tie Leung Limited and addressed to the Company in connection with its valuation as at 28 February 2007 of the captioned property for the purpose of inclusion in this circular.



10th Floor, Jardine House,
1 Connaught Place,
Central, Hong Kong

March 30, 2007

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

Dear Sirs,

Re: The proposed China Pearls and Jewellery City, Phase I, which is being erected on a piece of commercial land of 168,552.4 sq.m., in Xidoumen Village and Yangzishan Village, 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 which is situated 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 Man Sang International Limited (referred to as the "Company") or its subsidiaries (together referred to as the "Group") with our opinion of the market value of the property interest as at February 28, 2007 (the "Date of Valuation").

Basis of Valuation

Our valuation of the property interest is our opinion of its market value which in accordance with The Valuation Standards on Properties (First Edition 2005) published by the Hong Kong Institute of Surveyors is defined as 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, Beijing DeHeng Law Firm Shenzhen Office (北京市德恆律師事務所深圳分所), regarding the title of the property and the interest of the Group in the property. The status of titles and grants 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 valuation 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 outgoing 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 The Valuation Standards on Properties (First Edition 2005) of The Hong Kong Institute of Surveyors.

Method of Valuation

In valuing the property interest which is under development in the PRC, we have valued the property interest on the basis that the property will be developed and completed in accordance with the latest development proposal the details of which are provided to us by the Group. We have assumed that approvals for the proposal have been obtained. In arriving at our opinion of value, we have adopted the direct comparison approach by making reference to comparable sales evidence as available in the relevant market and have also taken into account the expended construction costs and the estimated construction costs remaining outstanding for completing the development. The “capital value when completed” represents our opinion of the aggregate selling prices of the development assuming that it were completed as at the date of valuation.

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, scheduled completion dates of buildings, identification of buildings, development schemes, construction costs, site and floor areas 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 subject property interest, we have been provided with extracts of documents in relation to its title. 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 of the property. 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 valuation is 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.

Currency

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

Our valuation certificate is attached.

Yours faithfully,

for and on behalf of

DTZ Debenham Tie Leung Limited

K. B. Wong

Registered Professional Surveyor (GP)

China Real Estate Appraiser

M.H.K.I.S., M.R.I.C.S

Director

Note: Mr. K. B. Wong is a Registered Professional Surveyor who has over 20 years' of experience in valuation of properties in the PRC.

Valuation Certificate

| Property interest | Description and tenure | Particulars of occupancy | Capital value in existing state as at 28 February 2007 |
|---|---|---|--|
| The proposed China Pearls and Jewellery City, Phase I, which is being erected on a piece of commercial land of 168,552.4 sq.m., in Xidoumen Village and Yangzishan Village, Shanxiahu Town, Zhuji, Zhejiang Province, the PRC | <p>The property comprises the proposed China Pearls and Jewellery City Phase I which is being erected on a piece of land with a site area of 168,552.40 sq.m. (1,814,298 sq.ft.).</p> <p>The property is planned to be developed into a commercial development with a total gross floor area of approximately 166,436.61 sq.m. (1,791,524 sq.ft.).</p> <p>The land use rights of the property have been granted for a term due to expire on August 21, 2046 for commercial use.</p> | The property is currently under construction and scheduled to be completed in 2008. | RMB 295,000,000 <i>(Please see Note (5))</i> |

Notes:

- (1) According to Certificate for the Use of State-owned Land No. (2006) 11-5247, the land use rights of the property, comprising of a site area of 168,552.4 sq.m., have been granted to China Pearls and Jewellery International City Company Limited (諸暨華東國際珠寶城有限公司) for a land use term due to expire on August 21, 2046 for commercial use.
- (2) According to Permit for Commencement of Construction Works No. 330681200702150201 dated 15 February 2007, the construction works of the property, comprising a gross floor area of 166,436.60 sq.m., have been permitted.
- (3) According to Planning Permit for Construction Works No. (06) 60225 dated 20 December 2006, the construction works of the property, comprising a gross floor area of 166,436.61 sq.m., have been permitted.
- (4) According to a Confirmation Letter of the Use of State-owned Land Use Rights dated July 28, 2006 issued by Zhuji State-owned Land Resources Bureau and the information provided by the Group, the land portion of the property was acquired for a consideration of RMB 129,050,000 and the land premium was fully paid on August 1, 2006.
- (5) According to the information provided by the Group, the total contracted construction cost for the whole development as at February 28, 2007 was approximately RMB 217,021,000. According to a certificate issued by Zhejiang Huacheng Engineering Management Company Limited (浙江華城工程管理有限公司) on March 1, 2007, about 55 to 60% of the construction were completed as at February 28, 2007. We have taken into account such cost and information in the course of our valuation.
- (6) The capital value when completed of the property as at February 28, 2007 was RMB 515,000,000.
- (7) According to Business Licence No. 003648 dated February 16, 2007, China Pearls and Jewellery International City Company Limited was established on March 23, 2006 with a registered capital of US\$20,000,000 with a valid operation period from March 23, 2006 to March 22, 2056.

- (8) The opinion of the Company's legal adviser on PRC law states, inter alia, that:
- (i) The land use rights of the property has been granted to China Pearls and Jewellery International City Company Limited. China Pearls and Jewellery International City Company Limited is entitled to transfer and mortgage the land use rights of the property.
 - (ii) The construction being carried out on the land portion of the property comply with the planning requirements of the local government authorities.
 - (iii) The land of the property is subject to a mortgage in favour of Industrial and Commercial Bank of China Holdings Company Limited Zhuji Branch.
 - (iv) After completion of the construction works and the relevant procedures of obtaining the real estate title certificate for the property, China Pearls and Jewellery International City Company Limited is entitled to occupy, use and derive income from the property.
- (9) The status of the title and grant of major approvals and licences of the property, in accordance with the PRC legal opinion and the information provided by the Group, are as follows:

| | |
|---|-----|
| Certificate for the Use of State-owned Land | Yes |
| Confirmation Letter of the Use of State-owned Land Use Rights | Yes |
| Red-line Drawing | Yes |
| Planning Permit for Construction Use of Land | Yes |
| Planning Permit for Construction Works | Yes |
| Permit for Commencement of Construction Works | Yes |
| Business Licence | Yes |

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) (Note 1) | Total interest (Long Position) | | |
| Mr. Cheng Chung Hing | Beneficial owner and interest of a controlled corporation | 106,825,273 | 494,406,000 | 601,231,273 | — | 59.90% |
| Mr. Cheng Tai Po | Beneficial owner and interest of a controlled corporation | 76,086,180 | 494,406,000 | 570,492,180 | — | 56.84% |

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

The following table discloses the particulars of the share options granted to directors of the Company:

| Name of director | Capacity | Date of grant | Number of share options of the Company held (Note 2) | Number of underlying shares |
|----------------------|------------------|---------------|---|-----------------------------|
| Mr. Cheng Chung Hing | Beneficial owner | May 2, 2006 | 1,000,000 | 1,000,000 |
| Mr. Cheng Tai Po | Beneficial owner | May 2, 2006 | 1,000,000 | 1,000,000 |
| Ms. Yan Sau Man, Amy | Beneficial owner | May 2, 2006 | 10,000,000 | 10,000,000 |

Note 2: The share options were granted under the Company's share option scheme adopted on August 2, 2002 and entitle the holders thereof to subscribe for ordinary shares of HK\$0.10 each in the share capital of the Company. For share options granted on May 2, 2006, the holders can subscribe for the ordinary shares at a subscription price of HK\$0.253 per share, which is determined by the arithmetic average of the closing price of the Company's shares for each of the five trading days immediately prior to and including May 2, 2006. The share options are exercisable from May 2, 2006 to May 1, 2012. The options expire on May 1, 2012.

(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 3) | 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 3: 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 4.9% of the common stock of MSH at the Latest Practicable Date, which totally represent 72.5% 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 4) | 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 4: 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 4.9% of the common stock of MSH at the Latest Practicable Date, which totally represent 72.5% 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 5) | Total interest | |
| Mr. Cheng Chung Hing | Beneficial owner and interest of a controlled corporation | 312,500 (Note 6) | 3,437,501 | 3,750,001 | 58.75% |
| Mr. Cheng Tai Po | Beneficial owner and interest of a controlled corporation | — | 3,437,501 | 3,437,501 | 53.86% |

Note 5: 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.

Note 6: These interests represent physically settled options in MSH; of which 62,500 options are exercisable from September 16, 1998 to September 16, 2007; 62,500 options are exercisable from September 16, 1999 to September 16, 2007; 93,750 options are exercisable from March 26, 2004 to March 26, 2013; 93,750 options are exercisable from March 26, 2005 to March 26, 2013.

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 March 31, 2006 (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 | |
| Man Sang International (B. V. I.) Limited (“MSBVI”) | Beneficial Owner | 494,406,000 | — | 49.26% |
| MSH (<i>Note 1</i>) | Corporation | 494,406,000 | — | 49.26% |
| Cafoong Limited (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Answay Resources Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Batfield Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Cuff International Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Kanfill Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Lanmore Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Lonton Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Maddison Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Provisional Investments Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Waykon Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Wollerton Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |
| Wytech Ltd (<i>Note 2</i>) | Corporation | 494,406,000 | — | 49.26% |

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 March 31, 2006, the date to which the latest published consolidated audited accounts of the Group had been made up.

LITIGATION

On December 2, 2003, Arcadia Jewellery Limited ("Arcadia"), an indirectly wholly-owned 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 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 Company does 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 is the qualification of the expert who has made statement in this circular:

| Name | Qualification |
|---|---|
| Moores Rowland Mazars | Chartered Accountants, Certified Public Accountants |
| DTZ Debenham Tie Leung | Registered Professional Surveyors |
| Beijing Deheng Law Firm Shenzhen Office | Qualified PRC Lawyers |

As at the Latest Practicable Date, none of Moores Rowland Mazars, DTZ Debenham Tie Leung, or Beijing 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

Moores Rowland Mazars, DTZ Debenham Tie Leung and Beijing 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 conditional share sale and purchaser agreement dated February 10, 2006 entered into between Man Sang Enterprises Ltd. (a direct wholly-owned subsidiary of the Company) and Mr. Cheng Yip Shun in relation to the acquisition of the entire issued share capital of Smartest Man Holdings Limited, details of which are set out in the announcement dated February 10, 2006 and circular dated March 31, 2006 issued by the Company; and
- (b) the Agreement.

MISCELLANEOUS

- (a) The English language text of this document shall prevail over the Chinese language text.
- (b) The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Mr. Pak Wai Keung, Martin, who is also the Group financial controller and company secretary. He is a fellow member of the Hong Kong Institute of Certified Public Accountants.
- (c) The Company's branch share registrar in Hong Kong is Secretaries Limited, 26th Floor, Tesbury Centre, 28 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) each of the contracts set out under the paragraph headed "Material Contracts" in this Appendix;
- (c) accountants' report on the HK Company as signed by Moores Rowland Mazars, the text of which is set out in Appendix I to this circular;
- (d) the statement of pro forms net assets of the Enlarged Group prepared by Moores Rowland Mazars, the text of which is set out in Appendix III to this circular;
- (e) the annual reports of the Group for each of the two financial years ended March 31, 2005 and March 31, 2006;
- (f) the valuation report prepared by DTZ Debenham Tie Leung as set out in Appendix IV to this circular;
- (g) the written approval dated March 8, 2007 of Man Sang International (B. V. I.) Limited, Cheng Chung Hing and Cheng Tai Po;
- (h) the written consent of Moores Rowland Mazars as referred to under the section headed "Consents";
- (i) the written consent of DTZ Debenham Tie Leung as referred to under the section headed "Consents"; and
- (j) the written consent of Beijing DeHeng Law Firm Shenzhen Office as referred to under the section headed "Consents".