

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES

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

SUBSIDIARIES

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

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

RESULTS AND APPROPRIATIONS

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

The directors do not recommend the payment of a dividend.

RESERVES

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

DIRECTORS' REPORT

FINANCIAL SUMMARY

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

INVESTMENT PROPERTIES

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

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

PROPERTY, PLANT AND EQUIPMENT

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

MAJOR PROPERTIES

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

SHARE CAPITAL AND WARRANTS

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

SHARE OPTIONS

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

DIRECTORS' REPORT

DIRECTORS

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

Executive directors:

Mr. Cheng Chung Hing (*Chairman*)

Mr. Cheng Tai Po (*Deputy Chairman*)

Ms. Yan Sau Man, Amy

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

Non-executive director:

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

Independent non-executive directors:

Mr. Alexander Reid Hamilton

Mr. Yuen Ka Lok, Ernest

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

DIRECTORS' SERVICE CONTRACTS

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES

(1) Interests in the Company

(a) Shares and warrants

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

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

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

(b) Share options

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

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

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

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

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

(b) Share options (Continued)

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

(1) Interests in the Company (Continued)

(b) Share options (Continued)

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

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

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

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

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

DIRECTORS' REPORT

DIRECTORS' INTERESTS IN SECURITIES (Continued)

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

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

Notes:

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

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

CONNECTED TRANSACTIONS

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

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS

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

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

Notes:

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

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

PRE-EMPTIVE RIGHTS

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

RETIREMENT BENEFITS SCHEME

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

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

DONATIONS

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

CODE OF BEST PRACTICE

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

AUDITORS

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

On behalf of the Board

Cheng Chung Hing

CHAIRMAN

Hong Kong, June 28, 2001