



## Directors' Report

The directors present their annual report and the audited financial statements for the year ended March 31, 2002.

### 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 jewellery products. The principal activities of the subsidiaries are set out in note 35 to the financial statements.

### RESULTS

The results of the Group for the year ended March 31, 2002 are set out in the consolidated income statement on page 20.

The directors do not recommend the payment of a dividend and propose that the profit for the year be retained.

### INVESTMENT PROPERTIES

The Group's investment properties were revalued as at March 31, 2002 at approximately HK\$104 million. The revaluation resulted in a deficit amounting to approximately HK\$10 million which has been charged to the investment property revaluation reserve.

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

### PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings were revalued as at March 31, 2002 at approximately HK\$59 million. The revaluation resulted in a net revaluation decrease amounting to approximately HK\$10 million, of which a revaluation decrease of HK\$14 million has been charged to the income statement and a revaluation increase of HK\$4 million has been credited to the other property revaluation reserve.

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



### SHARE CAPITAL AND WARRANTS

Pursuant to a share placing agreement entered into in November 2001, the Company issued 120,000,000 new ordinary shares of HK\$0.10 each at an issue price of HK\$0.12 per share.

Details of these and other 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.

### DIRECTORS AND DIRECTORS' SERVICE CONTRACTS

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

*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. Cheng Tai Po 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.

Mr. Cheng Tai Po has entered into a service agreement with the Company for a fixed term of three years from September 1, 2000.



## DIRECTORS' INTERESTS IN SECURITIES

### (1) Interests in the Company

#### *Shares*

As at March 31, 2002, 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") were as follows:

Name of director	Personal interests	Number of ordinary shares		
		Family interests	Corporate interests	Other interests
Mr. Cheng Chung Hing	–	–	426,000,000	–
Mr. Cheng Tai Po	6,506,400	–	426,000,000	–

*Note:* These shares 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. 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, 2002, 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.

#### *Share options*

Details of the directors' personal interests in share options to subscribe for shares in the Company are set out in the section headed "Share Options" below.



## 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 interests	Family interests	Corporate interests	Other interests	Personal interests	Family interests	Corporate interests	Other interests
				(Note 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, 2002, 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 on October 17, 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.

## SHARE OPTIONS

In accordance with the Company's share option scheme (the "Scheme") which became effective on September 8, 1997, the board of directors of the Company may grant options to full-time employees including executive directors of the Group 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 of Hong Kong Limited (the "Stock Exchange") on 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. The purpose of the Scheme is to provide 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.



## SHARE OPTIONS – Continued

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

The Scheme shall be valid and effective for a period of 10 years commencing September 8, 1997, after which period no further options will be issued but the provisions of the Scheme shall remain in full force and effect in all other respects.

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 Scheme, whichever is the earlier.

As at March 31, 2002, the number of shares in respect of which options had been granted under the Scheme was 43,261,319, representing 5.8% of the shares of the Company in issue at that date.

The following table discloses movements in the Company's share options during the year:

	Date of share options granted	Outstanding at beginning of the year	Granted and exercised during the year	Expired during the year	Outstanding at end of the year
<b>Directors</b>					
Mr. Cheng Chung Hing	November 16, 1999	1,560,243	–	–	1,560,243
	April 28, 2000	12,000,000	–	–	12,000,000
Mr. Cheng Tai Po	November 16, 1999	1,560,243	–	–	1,560,243
	April 28, 2000	12,000,000	–	–	12,000,000
Ms. Yan Sau Man, Amy	November 16, 1999	2,400,375	–	–	2,400,375
	April 28, 2000	6,000,000	–	–	6,000,000
Total for directors		35,520,861	–	–	35,520,861
<b>Other employees</b>					
Other employees	November 16, 1999	3,780,589	–	(840,131)	2,940,458
	April 28, 2000	8,400,000	–	(3,600,000)	4,800,000
Total for other employees		12,180,589	–	(4,440,131)	7,740,458
		47,701,450	–	(4,440,131)	43,261,319



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### SHARE OPTIONS – Continued

Details of specific categories of options are as follows:

<b>Date of share options granted</b>	<b>Exercise period</b>	<b>Exercise price per share HK\$</b>
November 16, 1999	May 16, 2000 – May 15, 2002	0.2133
April 28, 2000	October 28, 2000 – October 27, 2002	0.2475

The closing prices of the Company's shares immediately before the dates of grant on November 16, 1999 and April 28, 2000 were HK\$0.32 and HK\$0.37, respectively.

### ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the sections headed "Directors' Interests In Securities" and "Share Options" above, at no time during the year was the Company, its holding companies, or its subsidiaries, a party to any arrangements to enable the directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

### CONNECTED TRANSACTIONS

- (1) As at March 31, 2002, advances made by the Group to Cyber Bizport Limited and its subsidiaries, all of which are 79% indirectly owned subsidiaries of the Company, were outstanding in the aggregate amount of HK\$14,898,000. The advances were used to finance the working capital of Cyber Bizport Limited and its subsidiaries. The advances are unsecured, non interest-bearing and have no fixed repayment terms.
- (2) Mr. Yuen Ka Lok, Ernest, an independent non-executive director, is a partner of Yuen & Partners. Yuen & Partners received professional fees of HK\$36,000 for the provision of legal services to the Group during the year.

### DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Save as disclosed under the section headed "Connected Transactions" 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 the any time during the year.



## SUBSTANTIAL SHAREHOLDERS

As at March 31, 2002, 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	–	56.66%	
MSH	–	426,000,000	56.66%	1
Cafoong Limited	–	426,000,000	56.66%	2
Guangdong Development Bank Shenzhen Branch	90,142,000	–	11.99%	

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, 2002, which represent 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, 2002.

## 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.



## Directors' Report

### 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\$622,000 (2001: 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\$240,000.

### CORPORATE GOVERNANCE

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

### 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, 2002