



Directors' Report

The directors present their annual report and the audited financial statements for the year ended March 31, 2004.

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 jewelry 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, 2004 are set out in the consolidated income statement on page 21.

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

The directors propose a bonus issue of shares on the basis of one share for every ten shares held at August 4, 2004.

INVESTMENT PROPERTIES

During the year, the Group acquired an investment property at a cost of approximately HK\$38 million and revalued all of its investment properties at March 31, 2004. The revaluation resulted in a revaluation increase amounting to approximately HK\$38 million, of which approximately HK\$1 million has been credited to the income statement and approximately HK\$37 million has been credited to the investment property revaluation reserve.

During the year, investment properties with a carrying amount of approximately HK\$27 million were transferred to property, plant and equipment.

Details of these and other movements during the year in the investment properties of the Group are set out in note 12 to the financial statements.

PROPERTY, PLANT AND EQUIPMENT

The Group's leasehold land and buildings were revalued at March 31, 2004. The revaluation resulted in a revaluation increase amounting to approximately HK\$11 million, of which HK\$6 million has been credited to the income statement and HK\$5 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 13 to the financial statements.



SHARE CAPITAL

During the year, a bonus issue of shares was made on the basis of one share for every ten shares held.

Details of the movements during the year in the share capital of the Company are set out in note 22 to the financial statements.

During the year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

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. Lee Kang Bor, Thomas (appointed on June 1, 2004)

Mr. Alexander Reid Hamilton

Mr. Yuen Ka Lok, Ernest

In accordance with Articles 86 and 87 of the Company's Bye-Laws, Mr. Lee Kang Bor, Thomas retires and Mr. Yuen Ka Lok, Ernest retires by rotation and, both being eligible, offer themselves for re-election. The term of office for each independent non-executive director is the period up to his retirement by rotation in accordance with the Company's Bye-Laws.

Each of the executive directors has entered into a service agreement with the Company for a fixed term of three years from September 1, 2003 until terminated by not less than three months' notice in writing served by either party on the other.



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

At March 31, 2004, the interests of the directors and their associates in the shares and underlying shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(a) Ordinary shares of the Company

Name of director	Capacity	Number of ordinary shares of HK\$0.10 each held			Percentage of the issued share capital of the Company
		Direct interest	Deemed interest <i>(Note)</i>	Total interest	
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	36,000,000	408,600,000	444,600,000	53.76%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	31,157,040	408,600,000	439,757,040	53.17%

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 408,600,000 shares. Cafoong Limited indirectly holds a 100% equity interest in Man Sang International (B.V.I.) Limited through Man Sang Holdings, Inc. ("MSH"), in which Cafoong Limited holds 62.42% of the common stock and all the Series A preferred stock at March 31, 2004, which totally represent 74.94% of the voting rights of MSH. Messrs. Cheng Chung Hing and Mr. Cheng Tai Po own 60% and 40% of the issued share capital of Cafoong Limited, respectively.



DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES – Continued

(b) Common stock in an associated corporation – MSH

Name of director	Capacity	Number of shares of US\$0.001 each in MSH held (Note)	Percentage of the common stock of MSH
Mr. Cheng Chung Hing	Held by a controlled corporation	2,750,000	62.42%
Mr. Cheng Tai Po	Held by a controlled corporation	2,750,000	62.42%

Note: These shares were directly and indirectly 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, 2004, which totally represent 74.94% of the voting rights of MSH. Messrs. Cheng Chung Hing and Mr. Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong Limited, respectively.

(c) Stock options of an associated corporation – MSH

Name of director	Capacity	Date of grant	Number of stock options of MSH held (Note)	Number of underlying shares
Mr. Cheng Chung Hing	Beneficial owner	September 16, 1997	100,000	100,000
		March 26, 2003	150,000	150,000
Mr. Cheng Tai Po	Beneficial owner	September 16, 1997	100,000	100,000
		March 26, 2003	100,000	100,000
Ms. Yan Sau Man, Amy	Beneficial owner	September 16, 1997	100,000	100,000

Note: 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 of US\$0.001 each in MSH. 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 become exercisable on March 26, 2005. The options expire on March 25, 2013.

All interests stated above represent long positions.

Save as disclosed above and certain nominee shares in subsidiaries held by certain directors in trust for the Group, none of the directors nor their associates, had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations at March 31, 2004.



SHARE OPTIONS

Particulars of the Company's share option scheme which was adopted on August 2, 2002 are set out in note 23 to the financial statements. No share option was granted during the year or was outstanding under the scheme at the end of the year. A total of approximately 75,187,000 shares of the Company are available for issue under the scheme, which represents 10% of the issued share capital of the Company at the date of adoption of the scheme.

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the section headed "Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures" above, at no time during the year was the Company, its subsidiaries, its holding companies, or any subsidiaries of its holding companies, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of 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.

CONNECTED TRANSACTIONS

During the year, Messrs. Yuen & Partners received professional fees of HK\$375,000 for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, an independent non-executive director of the Company, is a partner of Yuen & Partners.

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

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

On October 6, 2003, Messrs. Cheng Chung Hing and Cheng Tai Po purchased from Man Sang International (B.V.I.) Limited, the immediate holding company of the Company, 36 million and 24 million shares of the Company respectively. The purchase consideration is approximately HK\$8,940,000 which is calculated based on the arithmetic average of the unit closing prices of the Company's shares for each of the five trading days, immediately preceding and including October 6, 2003.

Save as disclosed above and under the section headed "Connected Transactions" above, no contract of significance to which the Company, its subsidiaries, its holding companies or any subsidiaries of its holding companies 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.



SUBSTANTIAL SHAREHOLDERS

At March 31, 2004, 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	Capacity	Number of shares held		Percentage of issued share capital of the Company	Notes
		Direct interest	Deemed interest		
Man Sang International (B.V.I.) Limited	Beneficial owner	408,600,000	–	49.40%	
MSH	Held by a controlled corporation	–	408,600,000	49.40%	1
Cafoong Limited	Held by a controlled corporation	–	408,600,000	49.40%	2
Guangdong Development Bank Shenzhen Branch	Beneficial owner	99,156,200	–	11.99%	

Notes:

1. This represented the deemed interest in 408,600,000 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 408,600,000 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, 2004, which represent 74.94% of the voting rights.

Save as disclosed above, the Company has not been notified of any other relevant interests or short positions in the Company's issued share capital at March 31, 2004.



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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.

DONATIONS

During the year, the Group made charitable and other donations amounting to HK\$158,000.

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 of Hong Kong Limited.

AUDITORS

The financial statements were audited by Messrs. Deloitte Touche Tohmatsu.

On behalf of the Board

Cheng Chung Hing

CHAIRMAN

Hong Kong, June 29, 2004