



Notes to the Financial Statements

For the year ended March 31, 2004

1. GENERAL

The Company is incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s ultimate holding company is 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. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS AND PRIOR PERIOD ADJUSTMENT

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES

The financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and certain investment in securities, and in accordance with the accounting principles generally accepted in Hong Kong. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries made up to March 31 each year.

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

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

Revenue recognition

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

Service income is recognized when services are provided.

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

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

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

Investments in subsidiaries

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

Investment properties

Investment properties are completed properties which are held for their investment potential, any rental income being negotiated at arm's length.



3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Investment properties – Continued

Investment properties are stated at their open market value based on independent professional valuations at the balance sheet date. Any revaluation increase or decrease arising on the revaluation of investment properties is credited or charged to the investment property revaluation reserve unless the balance on this reserve is insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the investment property revaluation reserve is charged to the income statement. Where a decrease has previously been charged to the income statement and a revaluation increase subsequently arises, this increase is credited to the income statement to the extent of the decrease previously charged.

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

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

Property, plant and equipment

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Property, plant and equipment – Continued

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

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

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

The gain or loss arising from disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement.

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

Impairment

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Investments in securities

Investments in securities are recognized on a trade date basis and are initially measured at cost.

Investments other than held-to-maturity debt securities are classified as investment securities and other investments.

Investment securities, which are securities held for an identified long-term strategic purpose, are measured at subsequent reporting dates at cost, as reduced by any impairment loss that is other than temporary.

Other investments are measured at fair value, with unrealized gains and losses included in net profit or loss for the period.

Inventories

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

Operating leases

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

Foreign currencies

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

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



3. SIGNIFICANT ACCOUNTING POLICIES – Continued

Taxation

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

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

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

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

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

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

Retirement benefits scheme

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



Notes to the Financial Statements

For the year ended March 31, 2004

4. TURNOVER

Turnover represents the net amounts received and receivable in respect of goods sold, less returns and allowances, by the Group to outside customers during the year.

5. BUSINESS AND GEOGRAPHICAL SEGMENTS

Business segments

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

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

Segment information about these businesses is presented below:

INCOME STATEMENT

For the year ended March 31, 2004

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



Notes to the Financial Statements

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

BALANCE SHEET

At March 31, 2004

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

OTHER INFORMATION

For the year ended March 31, 2004

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



Notes to the Financial Statements

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

INCOME STATEMENT

For the year ended March 31, 2003

(As restated)

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



Notes to the Financial Statements

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

BALANCE SHEET

At March 31, 2003

(As restated)

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

OTHER INFORMATION

For the year ended March 31, 2003

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



Notes to the Financial Statements

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

Geographical segments

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

5. BUSINESS AND GEOGRAPHICAL SEGMENTS – Continued

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

	Carrying amount of segment assets		Capital additions	
	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2003 HK\$'000	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2003 HK\$'000
Hong Kong	425,194	352,235	42,531	6,698
PRC	133,271	127,740	19,769	4,485
	558,465	479,975	62,300	11,183

6. INVESTMENT INCOME

	2004 HK\$'000	2003 HK\$'000
Interest income	245	620
Dividends received from listed other investments	428	362
Gain on disposal of listed other investments	991	–
	1,664	982



Notes to the Financial Statements

For the year ended March 31, 2004

7. PROFIT FROM OPERATIONS

	2004 HK\$'000	2003 HK\$'000
Profit from operations has been arrived at after charging:		
Allowance for bad and doubtful debts	9,530	440
Auditors' remuneration:		
Current year	946	805
Underprovision in previous years	3	204
Depreciation and amortisation	7,366	6,971
Loss on disposal of property, plant and equipment	426	603
Loss on disposal of investment properties	2,598	–
Loss on demolition of investment properties	2,421	–
Staff costs, including directors emoluments	40,850	35,167
and after crediting:		
Rental income from investment properties under operating leases (net of outgoings of HK\$131,000 (2003: HK\$115,000))	6,089	7,340



Notes to the Financial Statements

For the year ended March 31, 2004

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

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

(a) Directors' emoluments

	2004 HK\$'000	2003 HK\$'000
Fees:		
Executive	–	–
Independent non-executive	331	331
	331	331
Other emoluments:		
Executive		
Salaries and other allowances	7,164	7,210
Retirement benefits contributions	36	36
Performance related incentive payment	800	150
Approximate rateable value of a property for a director's accommodation	941	1,076
Independent non-executive	–	–
	8,941	8,472
	9,272	8,803

The directors' emoluments were within the following bands:

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



Notes to the Financial Statements

For the year ended March 31, 2004

8. DIRECTORS' AND EMPLOYEES' EMOLUMENTS – Continued

(b) Employees' emoluments

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

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

Their emoluments are within the following bands:

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

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

9. FINANCE COSTS

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



Notes to the Financial Statements

For the year ended March 31, 2004

10. TAXATION

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

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

10. TAXATION – Continued

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

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

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

11. EARNINGS PER SHARE

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

11. EARNINGS PER SHARE – Continued

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

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

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

12. INVESTMENT PROPERTIES

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

12. INVESTMENT PROPERTIES – Continued

The carrying value of investment properties shown above comprises:

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

13. PROPERTY, PLANT AND EQUIPMENT

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



Notes to the Financial Statements

For the year ended March 31, 2004

13. PROPERTY, PLANT AND EQUIPMENT – Continued

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

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

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

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

14. INTERESTS IN SUBSIDIARIES

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

The carrying value of the unlisted shares is based on the book values of the underlying net assets of the subsidiaries attributable to the Group as at the date on which the Company became the holding company of the Group pursuant to the corporate reorganisation in 1997.

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



Notes to the Financial Statements

For the year ended March 31, 2004

14. INTERESTS IN SUBSIDIARIES – Continued

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

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

15. INVESTMENT SECURITIES

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

16. DEFERRED TAXATION

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

THE GROUP

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



Notes to the Financial Statements

For the year ended March 31, 2004

16. DEFERRED TAXATION – Continued

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

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

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

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

THE COMPANY

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



Notes to the Financial Statements

For the year ended March 31, 2004

17. INVENTORIES

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

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

18. TRADE AND OTHER RECEIVABLES

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

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

19. OTHER INVESTMENTS

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

20. TRADE AND OTHER PAYABLES

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

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

21. SECURED BANK BORROWINGS

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



Notes to the Financial Statements

For the year ended March 31, 2004

22. SHARE CAPITAL

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

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

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

23. SHARE OPTION SCHEMES

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

23. SHARE OPTION SCHEMES – Continued

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

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

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

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

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



23. SHARE OPTION SCHEMES – Continued

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

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

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

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

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



23. SHARE OPTION SCHEMES – Continued

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).



Notes to the Financial Statements

For the year ended March 31, 2004

23. SHARE OPTION SCHEMES – 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, 2004:

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

24. RESERVES

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

The contributed surplus represents the difference between the consolidated shareholders' funds of the subsidiaries acquired and the nominal value of the Company's shares issued for the acquisition at the time of the corporate reorganisation in 1997.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

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

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

25. AMOUNT DUE TO IMMEDIATE HOLDING COMPANY

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



Notes to the Financial Statements

For the year ended March 31, 2004

26. DISPOSAL OF SUBSIDIARIES

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

Net cash inflow arising on disposal:

	2004	2003
	HK\$'000	HK\$'000
Cash consideration	–	2,307
Bank balances and cash disposed of	–	(1,966)
	–	341

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



Notes to the Financial Statements

For the year ended March 31, 2004

27. ACQUISITION OF A BUSINESS UNIT

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

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

28. PLEDGE OF ASSETS

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

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

29. CAPITAL COMMITMENT

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

30. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

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

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

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

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

The Group as lessor

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

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

31. CONTINGENT LIABILITIES

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

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

32. LITIGATION

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

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

33. RELATED PARTY TRANSACTIONS

During the year, Messrs. Yuen & Partners received professional fees of HK\$375,000 (2003: HK\$301,000) for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, an independent non-executive director of the Company, is a partner of Yuen & Partners.

During the year, the Group sold 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 have beneficial interests.



Notes to the Financial Statements

For the year ended March 31, 2004

33. RELATED PARTY TRANSACTIONS – Continued

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

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

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

34. RETIREMENT BENEFITS SCHEMES

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

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

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



Notes to the Financial Statements

For the year ended March 31, 2004

35. PARTICULARS OF SUBSIDIARIES

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

Name of subsidiary	Place of incorporation or registration/operation	Issued and fully paid share capital/registered capital	Proportion of nominal value of issued capital/registered capital held by the Company	Principal activities
Arcadia Jewellery Limited	Hong Kong	Ordinary shares HK\$500,000	100%	Trading and manufacturing of jewelry products
Asean Gold Limited	British Virgin Islands/Hong Kong	Ordinary shares US\$10,000	100%	Investment holding
Cyber Bizport Limited	Hong Kong	Ordinary shares HK\$10,000,000	100%	Investment holding
Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$6,000,000	100%	Purchasing and processing of pearls
Excel Access Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Property investment
Hong Kong Man Sang Investments Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Property holding
M. S. Collections Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%	Investment holding
Man Hing Industry Development (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$16,800,000	100%	Purchasing and processing of pearls and assembling of pearl jewelry and property investment



Notes to the Financial Statements

For the year ended March 31, 2004

35. 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 Development Company Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Investment and property holding
Man Sang Enterprise Ltd.	British Virgin Islands/ Hong Kong	Ordinary shares US\$100	100%	Investment holding
Man Sang Innovations Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Investment holding
Man Sang Jewellery Company Limited	Hong Kong	Ordinary shares HK\$500 Non-voting deferred shares HK\$500	100%	Trading of pearl products and investment holding
Market Leader Technology Limited	British Virgin Islands/ Hong Kong	Ordinary shares US\$100	100%	Investment holding
Peking Pearls Company Limited	Hong Kong	Ordinary shares HK\$2	100%	Inactive
Swift Millions Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Property investment
Tangzhu Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK\$6,800,000	100%	Purchasing and processing of pearls
4376zone.com Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Retail of jewelry and e-commerce trading



Notes to the Financial Statements

For the year ended March 31, 2004

35. PARTICULARS OF SUBSIDIARIES – Continued

Note 1: The Company directly holds the interests in Man Sang Enterprise Ltd., Man Sang Innovations Limited and Market Leader Technology Limited. All other interests shown above are indirectly held by the Company.

Note 2: The non-voting deferred shares practically carry no rights to dividends or to receive notice of or to attend or vote at any general meetings of the company or to participate in any distribution on winding up.

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