



Man Sang International Limited

(Incorporated in Bermuda with limited liability)



INTERIM REPORT

For the six months ended September 30, 2004

*The ultimate name in
Pearls*

The Board of Directors of Man Sang International Limited (the “Company”) is pleased to announce the unaudited financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended September 30, 2004. The results have been reviewed by the Company’s audit committee and by the Company’s auditors, Moores Rowland Mazars, in accordance with the Hong Kong Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants.

Moores Rowland Mazars

摩斯倫·馬賽會計師事務所

INDEPENDENT REVIEW REPORT

TO THE BOARD OF DIRECTORS OF MAN SANG INTERNATIONAL LIMITED

(incorporated in Bermuda with limited liability)

Introduction

We have been instructed by the Company to review the interim financial report set out on pages 2 to 9.

Respective responsibilities of directors and auditors

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with Statement of Standard Accounting Practice 25 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the relevant provisions thereof. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Review work performed

We conducted our review in accordance with Statement of Auditing Standards 700 “Engagements to Review Interim Financial Reports” issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the interim financial report.

Review conclusion

On the basis of our review which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six months ended September 30, 2004.

Moores Rowland Mazars

Chartered Accountants

Certified Public Accountants

Hong Kong, November 12, 2004

Condensed Consolidated Income Statement

For the six months ended September 30, 2004

| | NOTES | For the six months ended September 30, | |
|---|-------|---|---------------------------------|
| | | 2004 HK\$'000 (unaudited) | 2003 HK\$'000 (unaudited) |
| Turnover | | 207,061 | 168,396 |
| Cost of sales | | (147,691) | (123,279) |
| Gross profit | | 59,370 | 45,117 |
| Investment income | | 334 | 654 |
| Net unrealised gain on listed other investments | | 116 | 2,031 |
| Gain on disposal of an investment property | | 33,387 | – |
| Other operating income | | 3,522 | 3,425 |
| Selling expenses | | (4,445) | (4,140) |
| Administrative expenses | | (39,401) | (33,038) |
| Profit from operations | 4 | 52,883 | 14,049 |
| Finance costs | | (78) | (274) |
| Profit before taxation | | 52,805 | 13,775 |
| Taxation | 5 | (3,873) | (3,011) |
| Net profit for the period | | 48,932 | 10,764 |
| Earnings per share | 7 | | |
| – Basic | | 5.38 cents | 1.18 cents |

Condensed Consolidated Balance Sheet

At September 30, 2004

| | NOTES | 9.30.2004 HK\$'000 (unaudited) | 3.31.2004 HK\$'000 (audited) |
|---|-------|--------------------------------------|------------------------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Investment properties | 8 | 82,160 | 153,760 |
| Property, plant and equipment | 8 | 113,714 | 110,699 |
| Investment securities | | – | 856 |
| Deferred tax assets | | 4,854 | 3,649 |
| | | <u>200,728</u> | <u>268,964</u> |
| Current assets | | | |
| Inventories | | 95,877 | 115,297 |
| Trade and other receivables | 9 | 71,263 | 79,626 |
| Other investments | | 7,892 | 7,776 |
| Bank balances and cash | | 193,070 | 90,451 |
| | | <u>368,102</u> | <u>293,150</u> |
| Current liabilities | | | |
| Trade and other payables | 10 | 28,805 | 38,296 |
| Taxation | | 6,781 | 1,560 |
| Secured bank borrowings – due within one year | | 5,575 | 5,575 |
| | | <u>41,161</u> | <u>45,431</u> |
| Net current assets | | <u>326,941</u> | <u>247,719</u> |
| Total assets less current liabilities | | <u>527,669</u> | <u>516,683</u> |
| Non-current liabilities | | | |
| Secured bank borrowings – due after one year | | 3,229 | 6,016 |
| Amount due to immediate holding company | | 4,459 | 6,000 |
| Deferred tax liabilities | | 14,931 | 15,237 |
| | | <u>22,619</u> | <u>27,253</u> |
| NET ASSETS | | <u>505,050</u> | <u>489,430</u> |
| CAPITAL AND RESERVES | | | |
| Share capital | | 90,976 | 82,706 |
| Reserves | | 414,074 | 406,724 |
| | | <u>505,050</u> | <u>489,430</u> |

Condensed Consolidated Statement of Changes in Equity

For the six months ended September 30, 2004

| | Share capital HK\$'000 | Share premium HK\$'000 | Other non-distributable reserve HK\$'000 | Merger reserve HK\$'000 | Investment property revaluation reserve HK\$'000 | Other property revaluation reserve HK\$'000 | Translation reserve HK\$'000 | Accumulated profits HK\$'000 | Total HK\$'000 |
|--|---------------------------|---------------------------|---|----------------------------|---|--|---------------------------------|---------------------------------|-------------------|
| Balance at April 1, 2003 (audited) | 75,187 | 75,728 | 2,001 | (200) | - | 3,659 | 4,488 | 248,084 | 408,947 |
| Reversal of deferred tax liabilities on demolition of investment properties | - | - | - | - | 1,228 | - | - | - | 1,228 |
| Exchange differences arising from translation of financial statements of overseas operations | - | - | - | - | - | - | (62) | - | (62) |
| Net gain not recognised in the income statement | - | - | - | - | 1,228 | - | (62) | - | 1,166 |
| Capitalisation on bonus issue of shares | 7,519 | (7,519) | - | - | - | - | - | - | - |
| Net revaluation deficit on investment properties charged to income statement | - | - | - | - | 1,781 | - | - | - | 1,781 |
| Release on demolition of investment properties | - | - | - | - | (3,009) | - | - | - | (3,009) |
| Release on depreciation of leasehold land and buildings | - | - | - | - | - | (99) | - | 99 | - |
| Net profit for the period | - | - | - | - | - | - | - | 10,764 | 10,764 |
| Balance at September 30, 2003 (unaudited) | 82,706 | 68,209 | 2,001 | (200) | - | 3,560 | 4,426 | 258,947 | 419,649 |
| Revaluation increase on investment properties | - | - | - | - | 35,692 | - | - | - | 35,692 |
| Revaluation increase on leasehold land and buildings | - | - | - | - | - | 4,682 | - | - | 4,682 |
| Deferred tax liability arising on revaluation of properties | - | - | - | - | (1,343) | (56) | - | - | (1,399) |
| Exchange differences arising from translation of financial statements of overseas operations | - | - | - | - | - | - | 116 | - | 116 |
| Net gain not recognised in the income statement | - | - | - | - | 34,349 | 4,626 | 116 | - | 39,091 |
| Release on disposal of investment properties | - | - | - | - | 4,274 | - | - | - | 4,274 |
| Release on depreciation of leasehold land and buildings | - | - | - | - | - | (112) | - | 112 | - |
| Net profit for the period | - | - | - | - | - | - | - | 26,416 | 26,416 |
| Balance at March 31, 2004 (audited) | 82,706 | 68,209 | 2,001 | (200) | 38,623 | 8,074 | 4,542 | 285,475 | 489,430 |

Condensed Consolidated Statement of Changes in Equity (Continued)

For the six months ended September 30, 2004

| | Share capital | Share premium | Other non-distributable reserve | Merger reserve | Investment property revaluation reserve | Other property revaluation reserve | Translation reserve | Accumulated profits | Total |
|--|---------------|---------------|---------------------------------|----------------|---|------------------------------------|---------------------|---------------------|----------------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Balance at March 31, 2004 (audited) | 82,706 | 68,209 | 2,001 | (200) | 38,623 | 8,074 | 4,542 | 285,475 | 489,430 |
| Exchange differences arising from translation of financial statements of overseas operations | - | - | - | - | - | - | 66 | - | 66 |
| Net gain not recognised in the income statement | - | - | - | - | - | - | 66 | - | 66 |
| Capitalisation on bonus issue of shares | 8,270 | (8,270) | - | - | - | - | - | - | - |
| Release on disposal of investment properties | - | - | - | - | (33,378) | - | - | - | (33,378) |
| Release on depreciation of leasehold land and buildings | - | - | - | - | - | (129) | - | 129 | - |
| Net profit for the period | - | - | - | - | - | - | - | 48,932 | 48,932 |
| Balance at September 30, 2004 (unaudited) | 90,976 | 59,939 | 2,001 | (200) | 5,245 | 7,945 | 4,608 | 334,536 | 505,050 |

The merger reserve represents the differences between the nominal value of shares of subsidiaries acquired, and the nominal value of the Company's shares issued for the acquisition under the corporate reorganisation in 1997.

Condensed Consolidated Cash Flow Statement

For the six months ended September 30, 2004

| | For the six months ended September 30, | |
|--|---|-----------------|
| | 2004 | 2003 |
| | HK\$'000 | HK\$'000 |
| | (unaudited) | (unaudited) |
| Net cash from operating activities | 48,540 | 29,102 |
| Net cash from (used in) investing activities | 58,401 | (43,322) |
| Net cash used in financing activities | <u>(4,328)</u> | <u>(13,343)</u> |
| Net increase (decrease) in cash and cash equivalents | 102,613 | (27,563) |
| Cash and cash equivalents at beginning of the period | 90,451 | 75,638 |
| Effect of foreign exchange rate changes | <u>6</u> | <u>(1)</u> |
| Cash and cash equivalents at end of the period, represented by bank balances and cash | <u>193,070</u> | <u>48,074</u> |

Notes to the Condensed Financial Statements

For the six months ended September 30, 2004

1. BASIS OF PREPARATION

The unaudited condensed consolidated financial statements have been prepared in accordance with Statement of Standard Accounting Practice 25 "Interim Financial Reporting" and with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The unaudited condensed consolidated financial statements have been prepared under the historical cost convention, as modified for the revaluation of properties and investments in securities.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2004.

3. SEGMENT INFORMATION

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

Pearls – Purchasing, processing, assembling, merchandising, wholesale and retail distribution of pearls and jewelry products

Property investment – Leasing of properties

Segment information about these businesses is presented below:

Six months ended September 30, 2004

| | Pearls <i>HK\$'000</i> | Property investment <i>HK\$'000</i> | Consolidated <i>HK\$'000</i> |
|---|----------------------------------|---|--|
| Revenue | | | |
| External sales or rentals | <u>207,061</u> | <u>2,879</u> | <u>209,940</u> |
| Result | | | |
| Segment results | <u>21,801</u> | <u>31,937</u> | 53,738 |
| Unallocated other operating and investment income | | | 1,092 |
| Unallocated corporate expenses | | | <u>(1,947)</u> |
| Profit from operations | | | <u>52,883</u> |

3. SEGMENT INFORMATION (Continued)

Six months ended September 30, 2003

| | Pearls HK\$'000 | Property investment HK\$'000 | Consolidated HK\$'000 |
|---|--------------------|------------------------------------|--------------------------|
| Revenue | | | |
| External sales or rentals | 168,396 | 2,875 | 171,271 |
| Result | | | |
| Segment results | 15,794 | (3,584) | 12,210 |
| Unallocated other operating and investment income | | | 3,235 |
| Unallocated corporate expenses | | | (1,396) |
| Profit from operations | | | 14,049 |

4. PROFIT FROM OPERATIONS

For the six months ended
September 30,

2004 2003
HK\$'000 HK\$'000

Profit from operations has been arrived at after charging:

| | | |
|---|--------|--------|
| Depreciation and amortisation of property, plant and equipment | 3,400 | 3,837 |
| Net revaluation deficit on investment properties | – | 1,781 |
| Loss on demolition on an investment property | – | 2,421 |
| Staff cost and related expenses (including directors' emoluments) | 16,557 | 15,205 |

5. TAXATION

For the six months ended
September 30,

2004 2003
HK\$'000 HK\$'000

| | | |
|--|---------|-------|
| Current tax: | | |
| – Hong Kong | 5,836 | 2,832 |
| – People's Republic of China, other than Hong Kong (the "PRC") | (452) | 396 |
| | 5,384 | 3,228 |
| Deferred tax: | | |
| – Current period | (1,511) | (217) |
| | 3,873 | 3,011 |

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended September 30, 2004 (six months ended September 30, 2003: 17.5%). Income tax in the PRC is calculated at the rate of 15.0% of the income of the PRC subsidiaries for both periods.

6. DIVIDEND

The directors do not recommend the payment of an interim dividend (six months ended September 30, 2003: Nil) and propose that the profit for the period be retained. No dividend was paid during the period.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$48,932,000 (six months ended September 30, 2003: HK\$10,764,000) and on 909,764,000 (six months ended September 30, 2003: 909,764,000) shares in issue during the period.

The number of ordinary shares for both periods 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 4, 2004.

The adjustments to comparative earnings per share, arising from the bonus issue are as follows:

| | <i>HK cents</i> |
|---|--------------------|
| Reported figure before adjustments | 1.30 |
| Adjustment arising from the bonus issue | <u>(0.12)</u> |
| Restated figure | <u><u>1.18</u></u> |

No diluted earnings per share has been presented for both periods because there are no dilutive potential ordinary shares in issue for the six months ended September 30, 2004 and September 30, 2003.

8. INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the six months ended September 30, 2004, the movements of investment properties are as follows:

- the Group disposed of an investment property and recognised a gain on disposal of HK\$33,387,000. No Hong Kong Profits Tax is provided as the gain is capital in nature.

The directors are of the opinion that the market values of the Group's investment properties and leasehold land and buildings as at September 30, 2004 are not materially different from the carrying amount of the investment properties and leasehold land and buildings.

9. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables of the Group are trade receivables of HK\$63,642,000 (March 31, 2004: HK\$62,993,000) and their aged analysis is as follows:

| | 9.30.2004 HK\$'000 | 3.31.2004 <i>HK\$'000</i> |
|---------------|-------------------------------------|------------------------------|
| 0 – 60 days | 63,642 | 62,735 |
| 61 – 120 days | <u>–</u> | <u>258</u> |
| | <u>63,642</u> | <u>62,993</u> |

10. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$9,649,000 (March 31, 2004: HK\$13,234,000) and their aged analysis is as follows:

| | 9.30.2004 HK\$'000 | 3.31.2004 <i>HK\$'000</i> |
|---------------|-------------------------------------|------------------------------|
| 0 – 60 days | 9,062 | 12,980 |
| 61 – 120 days | 554 | 193 |
| >120 days | <u>33</u> | <u>61</u> |
| | <u>9,649</u> | <u>13,234</u> |

The Second Interim Dividend

The Board of Directors resolved not to declare the second interim dividend in respect of the six months ended September 30, 2004 (six months ended September 30, 2003: Nil).

Business Review and Prospects

For the six months ended September 30, 2004, the Group recorded a turnover of approximately HK\$207.1 million, representing an increase of 23.0% as compared to the same period in 2003. Profit attributable to shareholders was approximately HK\$48.9 million after including the gain of HK\$33.4 million on the disposal of one of our investment properties. Excluding the effect of the contribution of this disposal gain, the profit attributable to shareholder was increased by 44.4% when compared to same period last year. The improvement in performance is mainly due to the increase in sales in the first quarter of this financial year compared to the same period last year which was adversely affected by the negative economic effects of Severe Acute Respiratory Syndrome ("SARS") and the Iraq war.

On the pearl business side, South Sea pearls including white and gold South Sea pearls and Tahitian Black pearls continue to be our key contributor to our sales performance, representing 47.1% of the group's total turnover for the six months ended September 30, 2004. Buyers have been more active in recent auctions and tradeshows due to better economic conditions worldwide and are more confident about their future sales. Sales of the assembled jewelry products continue to grow at a healthy pace.

Overall international fashion designers predict that the demand for pearl jewelry will continue to grow over the next few years. Pearls and pearl jewelry products have gained a firm foothold in the fashion world and are becoming more popular among young and trendy consumers, with new designs combining all types of pearls and jewelry materials, and various price ranges to suit different customers.

Gross profit margin increased slightly by 1.9% when compared to last year mainly due to the contribution of the first quarter of this financial year of which the performance in same period last year was affected by SARS and Iraq war. In addition, increased pearl sales with a higher gross profit margin than assembled jewelry products also accounts for the improvement.

Selling and administrative expenses were higher by 17.9% when compared to same period last year mainly due to higher exhibition expenses and an increase in our provision for doubtful debts as a result of higher sales performance as well as the impairment of investment securities.

We continue to expand our core pearl business and also place emphasis in further enlarging our assembled jewelry products business by offering the products and services that suit our customers' needs as well as using flexible pricing strategies. By attending international tradeshows and exhibitions and adopting aggressive marketing strategies, we believe that we can further enlarge our market share and customer base. We also closely monitor changes in market demand, environment and conditions so that we can react in line with such changes. At the same time, we will continue to maintain effective cost control measures to bring the best results to our operations. Looking forward, with the worldwide economic condition continually improving, we anticipate that the performance in the coming quarters will continue to look promising and positive.

Liquidity and Capital Resources

At September 30, 2004, the Group's total shareholders' funds amounted to HK\$505.1 million, compared with HK\$489.4 million at March 31, 2004. The gearing ratio was 1.7% at September 30, 2004, compared to 2.4% at March 31, 2004.

At September 30, 2004, the Group had a working capital of HK\$326.9 million, which included a cash balance of HK\$193.1 million, compared to the working capital of HK\$247.7 million, which included a cash balance of HK\$90.5 million at March 31, 2004. The increase in working capital was mainly due to an increase in cash balance by HK\$102.6 million and a decrease in trade and other payables by HK\$9.5 million, but being offset by the decrease in inventories and trade and other receivables by HK\$19.4 million and HK\$8.4 million respectively.

The Group had available working capital facilities of HK\$47.0 million in total with various banks at September 30, 2004. Such banking facilities include letter of credit arrangements, import loans, overdraft and other facilities commonly used in jewelry business. All such banking facilities bear interest at floating rates generally offered by banks in Hong Kong and are subject to periodic review. At September 30, 2004, the Group had a zero balance on each of these credit facilities.

Directors' Interests and Short Positions in Shares, Underlying Shares and Debentures

At September 30, 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 | Direct interest | Number of ordinary shares of HK\$0.10 each held | | Percentage of the issued share capital of the Company |
|----------------------|---|-----------------|---|----------------|---|
| | | | Deemed interest (Note) | Total interest | |
| Mr. Cheng Chung Hing | Beneficial owner and interest of a controlled corporation | 39,600,000 | 449,460,000 | 489,060,000 | 53.76% |
| Mr. Cheng Tai Po | Beneficial owner and interest of a controlled corporation | 34,272,744 | 449,460,000 | 483,732,744 | 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 449,460,000 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 September 30, 2004, which totally represent 74.94% of the voting rights of MSH. Messrs. Cheng Chung Hing and Messrs. Cheng Tai Po own 60% and 40% of the issued share capital of Cafoong Limited, respectively.

(b) Share options of the Company

No options have been granted under the Company's share option scheme which was adopted on August 2, 2002.

(c) Common stock in an associated corporation – MSH

| Name of director | Capacity | Numbers of shares of common stock of US\$0.001 each in MSH held (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 September 30, 2004, which totally represent 74.94% of the voting rights of MSH. Messrs. Cheng Chung Hing and Messrs. Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong Limited, respectively.

(d) 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 September 30, 2004.

Substantial Shareholders

At September 30, 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 | 449,460,000 | – | 49.40% | |
| MSH | Held by a controlled corporation | – | 449,460,000 | 49.40% | 1 |
| Cafoong Limited | Held by a controlled corporation | – | 449,460,000 | 49.40% | 2 |
| Guangdong Development Bank Shenzhen Branch | Beneficial owner | 109,071,820 | – | 11.99% | |

Notes:

1. This represented the deemed interest in 449,460,000 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 449,460,000 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 September 30, 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 September 30, 2004.

Purchase, Sale or Redemption of the Company’s Securities

During the six months ended September 30, 2004, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

Corporate Governance

None of the directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended September 30, 2004 in compliance 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 (“Listing Rules”).

Model Code

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules. All directors have confirmed, following enquiry by the Company, that they have complied with the required standard set out in Model Code throughout the period.

Audit Committee

The primary duties of the Audit Committee are to review the financial reporting process and internal control procedures of the Group. The Audit Committee has reviewed the Group's unaudited condensed financial statements for the six months ended September 30, 2004.

On behalf of the Board
CHENG CHUNG HING
Chairman

Hong Kong, November 12, 2004