

# Directors' Report

The directors present their annual report and the audited financial statements for the year ended March 31, 2005.

## 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 34 to the financial statements.

## Results

The results of the Group for the year ended March 31, 2005 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 1, 2005.

## Investment Properties

The Group's investment properties were revalued at March 31, 2005 at approximately HK\$78 million. The revaluation resulted in a revaluation increase amounting to approximately HK\$3 million, which has been credited to the investment property revaluation reserve.

During the year, investment properties with a carrying amount of approximately HK\$8 million were transferred to property, plant and equipment, and investment properties with a carrying amount of approximately HK\$72 million was disposed of, resulting in a gain of HK\$33 million.

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, 2005. The revaluation resulted in a revaluation increase amounting to approximately HK\$24 million, of which HK\$5 million has been credited to the income statement and HK\$19 million has been credited to the other property revaluation reserve.

Construction in progress with a carrying amount of HK\$11 million were transferred to leasehold land and buildings and plant and machinery.

**Directors' Report****Property, Plant and Equipment (Continued)**

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	(resigned on June 30, 2004)
Mr. Yuen Ka Lok, Ernest	(resigned on October 1, 2004)
Mr. Lau Chi Wah, Alex	(appointed on September 1, 2004)
Mr. Kiu Wai Ming, Kenneth	(appointed on September 27, 2004)

In accordance with Articles 86 and 87 of the Company's Bye-Laws and for compliance with the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited, Mr. Cheng Chung Hing, Mr. Cheng Tai Po, Mr. Lau Chi Wah, Alex and Mr. Kiu Wai Ming, Kenneth retire by rotation and, being eligible, offer themselves for re-election. The term of office for each executive and independent non-executive directors 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 giving to the other.

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

At March 31, 2005, 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 (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 61.72% of the common stock and all the Series A preferred stock at March 31, 2005, which totally represent 74.48% 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.*

#### (b) Common stock in an associated corporation – MSH

Name of director	Capacity	Number of shares of common stock of US\$0.001 each in MSH held		Percentage of the common stock of MSH
		(Note)		
Mr. Cheng Chung Hing	Held by a controlled corporation	2,750,000		61.72%
Mr. Cheng Tai Po	Held by a controlled corporation	2,750,000		61.72%

*Note: These shares were directly and indirectly owned by Cafoong Limited, a company incorporated in the British Virgin Islands. Cafoong Limited holds 61.72% of the common stock and all the Series A preferred stock of MSH at March 31, 2005, which totally represent 74.48% 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.*

**Directors' Report****Directors' Interests and Short Positions in Shares,  
Underlying Shares and Debentures (Continued)****(c) Stock options of an associated corporation – MSH**

Name of director	Capacity	Date of grant	Number of stock options of MSH held <i>(Note)</i>	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, 2005.

**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\$237,000 for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, resigned as an independent non-executive director of the Company on October 1, 2004, but he is an independent non-executive director and the Chairman of the audit committee of MSH. He is a partner of Yuen & Partners.

During the year, the Group sold jewelry products amounting to HK\$636,000 and received reimbursement of staff cost of HK\$554,000 from 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**

Save as disclosed 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.

**Directors' Report****Substantial Shareholders**

At March 31, 2005, 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	103,629,820	–	11.39%	

*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 61.72% of the common stock and all of the Series A preferred stock of MSH at March 31, 2005, which represent 74.48% 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, 2005.

**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\$33,000.

### **Purchase, Redemption or Sale of the Company's Listed Securities**

Neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company during the year.

### **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 year ended March 31, 2005 in compliance with the Code of Best Practice as set out in Appendix 14 of the 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 the Model Code throughout the year ended March 31, 2005.

### **Independence of Independent Non-executive Directors**

The Company has received from each of the independent non-executive directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Board has assessed the independence of all the independent non-executive directors and is satisfied of their independence.

### **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 audited financial statements for the year ended March 31, 2005.

### **Auditors**

Deloitte Touche Tohmatsu was the auditors for the three years ended March 31, 2004. The financial statements have been audited by Moores Rowland Mazars (having been appointed by the Board on August 4, 2004 to fill the casual vacancy arising from the resignation of Deloitte Touche Tohmatsu) who will retire and be eligible to offer themselves for appointment. A resolution will be proposed at the forthcoming annual general meeting to authorise the Board to appoint auditors and to fix their remuneration.

On behalf of the Board

**Cheng Chung Hing**

*Chairman*

Hong Kong, June 28, 2005