

# Notes to the Financial Statements

For the year ended March 31, 2005

## 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. Statement of Compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (which include all applicable Statements of Standard Accounting Practice and Interpretations ("SSAPs")) issued by Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after January 1, 2005. The Group has not early adopted these new HKFRSs in the financial statements for the year ended March 31, 2005. The Group has commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

## 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. 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.

**Notes to the Financial Statements**  
*For the year ended March 31, 2005*

**3. Significant Accounting Policies (Continued)**

**Investments in subsidiaries**

Investments in subsidiaries are included in the Company's balance sheet at cost less any identified impairment loss. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**Investment properties**

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

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 are stated at cost or valuation less accumulated 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.

### 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 of 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.

#### **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.

**Notes to the Financial Statements**  
*For the year ended March 31, 2005*

### 3. Significant Accounting Policies (Continued)

#### **Impairment loss**

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 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 not to an amount higher than 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.

#### **Inventories**

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

#### **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.

#### **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.

### 3. Significant Accounting Policies (Continued)

#### **Foreign currencies (Continued)**

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.

#### **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.

**Notes to the Financial Statements**  
*For the year ended March 31, 2005*

**3. Significant Accounting Policies (Continued)**

**Operating leases**

Leases where substantially all the rewards and risks of ownership of assets remain with the leasing company are accounted for as operating leases. Rentals payable and receivable under operating leases are recognized as expense and revenue on the straight-line basis over the lease terms.

**Related parties**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

**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.

**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 jewelry products.

Property investment – Leasing of properties.

## 5. Business and Geographical Segments (Continued)

Segment information about these businesses is presented below:

### Income Statement (For the year ended March 31, 2005)

	Pearls HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>Revenue</b>			
External sales or rentals	412,262	4,646	416,908
<b>Result</b>			
Segment results	50,531	28,644	79,175
Unallocated other operating income			3,107
Unallocated corporate expenses			(4,524)
<b>Profit from operations</b>			<b>77,758</b>
Finance costs			(100)
<b>Profit before taxation</b>			<b>77,658</b>
Taxation			(6,145)
<b>Net profit for the year</b>			<b>71,513</b>

**Notes to the Financial Statements**  
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**5. Business and Geographical Segments (Continued)**

**Balance Sheet (At March 31, 2005)**

	Pearls HK\$'000	Property investment HK\$'000	Consolidated HK\$'000
<b>Assets</b>			
Segment assets	447,857	92,738	540,595
Unallocated corporate assets			59,234
Consolidated total assets			599,829
<b>Liabilities</b>			
Segment liabilities	28,217	1,948	30,165
Unallocated corporate liabilities			20,679
Consolidated total liabilities			50,844

**Other information (For the year ended March 31, 2005)**

	Pearls HK\$'000	Property investment HK\$'000	Corporate and others HK\$'000	Consolidated HK\$'000
Capital additions	8,536	1,473	-	10,009
Depreciation and amortization	5,819	-	799	6,618
Impairment loss on investment securities	-	-	856	856
Allowance for bad and doubtful debts	8,210	847	-	9,057
Gain on disposal of an investment property	-	33,388	-	33,388
Revaluation increase on leasehold land and buildings	-	-	5,392	5,392
Impairment loss on property, plant and equipment	2,617	-	-	2,617
Net unrealized gain on listed other investments	-	-	646	646



**5. Business and Geographical Segments (Continued)**

**Income Statement (For the year ended March 31, 2004)**

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

**Notes to the Financial Statements**  
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**5. Business and Geographical Segments (Continued)**

**Balance Sheet (At March 31, 2004)**

	<b>Pearls</b>	<b>Property</b>	<b>Consolidated</b>
	HK\$'000	investment HK\$'000	HK\$'000
<b>Assets</b>			
Segment assets	264,979	160,920	425,899
Unallocated corporate assets			136,215
Consolidated total assets			562,114
<b>Liabilities</b>			
Segment liabilities	27,954	10,075	38,029
Unallocated corporate liabilities			34,655
Consolidated total liabilities			72,684

**Other information (For the year ended March 31, 2004)**

	<b>Pearls</b>	<b>Property</b>	<b>Corporate</b>	<b>Consolidated</b>
	HK\$'000	investment HK\$'000	and others HK\$'000	HK\$'000
Capital additions	24,078	38,222	–	62,300
Depreciation and amortization	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

## 5. Business and Geographical Segments (Continued)

### Geographical segments

The Group's operations are located in Hong Kong and 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, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000
Hong Kong	46,700	52,762	39,681	5,264
North America	145,099	117,524	17,061	11,833
Europe	122,674	112,214	12,013	9,210
Japan	46,145	37,489	6,930	3,916
Other Asian countries	41,016	51,864	1,644	2,936
Others	15,274	16,490	1,846	1,257
	<b>416,908</b>	<b>388,343</b>	<b>79,175</b>	<b>34,416</b>
Unallocated other operating income			3,107	10,239
Unallocated corporate expenses			(4,524)	(3,293)
<b>Profit from operations</b>			<b>77,758</b>	<b>41,362</b>

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

	Carrying amount of segment assets		Capital additions	
	Year ended March 31, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000	Year ended March 31, 2005 HK\$'000	Year ended March 31, 2004 HK\$'000
Hong Kong	466,016	425,194	3,343	42,531
PRC	130,285	133,271	6,666	19,769
	<b>596,301</b>	<b>558,465</b>	<b>10,009</b>	<b>62,300</b>

**Notes to the Financial Statements**  
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**6. Investment Income**

	2005 HK\$'000	2004 HK\$'000
Interest income	978	245
Dividends received from listed other investments	235	428
Gain on disposal of listed other investments	–	991
	<b>1,213</b>	1,664

**7. Profit from Operations**

	2005 HK\$'000	2004 HK\$'000
Profit from operations has been arrived at after charging/(crediting):		
Allowance for bad and doubtful debts	9,057	9,530
Auditors' remuneration:		
Current year	943	946
Underprovision in previous years	–	3
Costs of inventories	295,014	277,976
Depreciation and amortization	6,618	7,366
(Gain) loss on disposal of property, plant and equipment	(136)	426
Loss on disposal of investment properties	–	2,598
Loss on demolition of investment properties	–	2,421
Staff costs, including directors emoluments	47,502	40,850
Rental income from investment properties under operating leases (net of outgoings of HK\$124,000 (2004: HK\$131,000))	(4,522)	(6,089)

## 8. Directors' and Employees' Emoluments

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

### (a) Directors' emoluments

	2005 HK\$'000	2004 HK\$'000
Fees:		
Executive	–	–
Independent non-executive	356	331
	356	331
Other emoluments:		
Executive		
Salaries and other allowances	7,500	7,164
Retirement benefits contributions	36	36
Performance related incentive payment	1,500	800
Approximate rateable value of a property for director's accommodation	823	941
Independent non-executive	–	–
	9,859	8,941
	10,215	9,272

The directors' emoluments were within the following bands:

	No. of directors	
	2005	2004
Up to HK\$1,000,000	5	2
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	2	–
HK\$3,500,001 to HK\$4,000,000	1	1

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**8. Directors' and Employees' Emoluments (Continued)**

**(b) Employees' emoluments**

Of the five individuals with the highest emoluments in the Group, three (2004: three) were directors of the Company whose emoluments are set out in (a) above. The emoluments of the remaining two (2004: two) individuals are as follows:

	2005 HK\$'000	2004 HK\$'000
Salaries and other allowances	1,982	2,165
Retirement benefits contributions	24	21
	<b>2,006</b>	2,186

Their emoluments are within the following bands:

	No. of employees	
	2005	2004
Up to HK\$1,000,000	1	1
HK\$1,000,001 to HK\$1,500,000	1	1

During the years ended March 31, 2005 and 2004, no emoluments were paid by the Group to the five highest paid individuals, including directors, as in inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended March 31, 2005 and 2004, no directors waived any emoluments.

**9. Finance Costs**

	2005 HK\$'000	2004 HK\$'000
Interest on bank borrowings wholly repayable within five years	100	380

## 10. Taxation

	2005 HK\$'000	2004 HK\$'000
Current tax:		
Hong Kong	6,531	4,990
PRC	–	271
	6,531	5,261
(Over) Underprovision in prior year:		
Hong Kong	(277)	283
PRC	(482)	(1,192)
	(759)	(909)
Deferred tax:		
Current year	373	(296)
Attributable to a change in tax rate	–	(254)
	373	(550)
	6,145	3,802

Hong Kong Profits Tax is calculated at a rate of 17.5% (2004: 17.5%) of the estimated assessable profit for the year.

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

**Notes to the Financial Statements**  
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### 10. Taxation (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Profit before taxation	77,658	40,982
Tax at the domestic income tax rate of 17.5% (2004: 17.5%)	13,590	7,172
Tax effect of expenses that are not deductible in determining taxable profit	716	288
Tax effect of income that is not taxable in determining taxable profit	(6,610)	(1,579)
Tax effect of utilization of tax loss not previously recognized	(923)	(1,190)
Tax effect of recognition of temporary difference not previously recognized	(975)	–
Tax effect of additional tax loss not recognized	1,115	409
Effect of different tax rates of subsidiaries operating in other jurisdictions	275	(135)
Overprovision in respect of prior year	(759)	(909)
Increase in the opening deferred tax asset resulting from an increase in tax rate	–	(254)
Others	(284)	–
<b>Tax expense for the year</b>	<b>6,145</b>	<b>3,802</b>

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

### 11. Earnings Per Share

The calculation of the basic earnings per share is based on the net profit for the year of HK\$71,513,000 (2004: HK\$37,180,000) and on 909,764,000 (2004: 909,764,000) shares in issue during the year.

No diluted earnings per share have been presented for both years as there are no dilutive potential ordinary shares in issue for the two years ended March 31, 2005 and 2004.

The number of ordinary shares for both years for the purpose of basic earnings per shares has been adjusted for the bonus issue approved pursuant to the annual general meeting held on August 4, 2004.



## 11. Earnings Per Share (Continued)

The adjustment to comparative earnings per share, arising from the bonus issue is as follows:

	HK CENTS
Reported figure before adjustments	4.50
Adjustment arising from the bonus issue	(0.41)
Restated figure	4.09

## 12. Investment Properties

	HK\$'000
<b>The Group</b>	
At April 1, 2004	153,760
Disposals during the year	(71,600)
Transferred to property, plant and equipment	(7,656)
Revaluation increase	3,146
<b>At March 31, 2005</b>	<b>77,650</b>

The Group's investment properties at March 31, 2005 were revalued by BMI Appraisals Limited, an independent firm of professional property valuers, on an open market value basis, at HK\$77,650,000. The revaluation increase arising from revaluation of the investment properties amounted to HK\$3,146,000 has been credited to the investment property revaluation reserve.

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

The carrying value of investment properties shown above comprises:

	2005 HK\$'000	2004 HK\$'000
Land and buildings situated in Hong Kong and held under long leases	29,050	94,960
Land and buildings situated in the PRC and held under medium-term land use rights	48,600	58,800
	<b>77,650</b>	153,760

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### 13. Property, Plant and Equipment

	Leasehold land and buildings HK\$'000	Construction 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
<b>The Group</b>							
<b>Cost or valuation</b>							
At April 1, 2004	78,100	21,926	14,273	12,707	11,360	4,577	142,943
Currency realignment	5	(81)	111	3	(8)	1	31
Additions	-	4,456	111	1,457	1,736	2,249	10,009
Transferred from							
investment properties	7,656	-	-	-	-	-	7,656
Disposals	-	-	(838)	(176)	(390)	(1,771)	(3,175)
Transfer upon completion	9,577	(11,213)	-	1,573	63	-	-
Adjustment on revaluation	22,499	-	-	-	-	-	22,499
<b>At March 31, 2005</b>	<b>117,837</b>	<b>15,088</b>	<b>13,657</b>	<b>15,564</b>	<b>12,761</b>	<b>5,056</b>	<b>179,963</b>
<b>Comprising:</b>							
At cost	-	15,088	13,657	15,564	12,761	5,056	62,126
At valuation - 2005	117,837	-	-	-	-	-	117,837
	117,837	15,088	13,657	15,564	12,761	5,056	179,963
<b>Depreciation and amortization</b>							
At April 1, 2004	-	-	12,011	7,705	8,412	4,116	32,244
Currency realignment	-	-	11	(28)	(14)	1	(30)
Provided for the year	2,040	-	932	1,656	1,413	577	6,618
Eliminated on disposals	-	-	(838)	(176)	(382)	(1,595)	(2,991)
Impairment loss	-	-	-	2,617	-	-	2,617
Eliminated on revaluation	(2,040)	-	-	-	-	-	(2,040)
<b>At March 31, 2005</b>	<b>-</b>	<b>-</b>	<b>12,116</b>	<b>11,774</b>	<b>9,429</b>	<b>3,099</b>	<b>36,418</b>
<b>Net book value</b>							
<b>At March 31, 2005</b>	<b>117,837</b>	<b>15,088</b>	<b>1,541</b>	<b>3,790</b>	<b>3,332</b>	<b>1,957</b>	<b>143,545</b>
At March 31, 2004	78,100	21,926	2,262	5,002	2,948	461	110,699

### 13. Property, Plant and Equipment (Continued)

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

	2005 HK\$'000	2004 HK\$'000
Land and buildings situated in Hong Kong and held under medium-term leases	88,400	64,800
Land and buildings situated in the PRC and held under medium-term land use rights	29,437	13,300
	<b>117,837</b>	78,100

The Group's leasehold land and buildings at March 31, 2005 were revalued by BMI Appraisals Limited, which is an independent firm of professional property valuers, on an open market value basis, at HK\$117,837,000. The revaluation increase arising from revaluation of the leasehold land and buildings amounted to HK\$24,539,000, of which HK\$5,392,000 has been credited to the income statement and HK\$19,147,000 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 and impairment losses of HK\$85,101,000 (2004: HK\$74,780,000).

### 14. Interests in Subsidiaries

	The Company	
	2005 HK\$'000	2004 HK\$'000
Unlisted shares, at cost	206,664	206,664
Amounts due from subsidiaries	135,658	132,160
	<b>342,322</b>	338,824

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 reorganization in 1997.

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**14. Interests in Subsidiaries (Continued)**

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.

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

Details of the Company's subsidiaries at March 31, 2005 are set out in note 34 to the financial statements.

**15. Investment Securities**

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Unlisted investments in the PRC, at cost	<b>5,586</b>	5,586
Impairment loss	<b>(5,586)</b>	(4,730)
	–	856

At the balance sheet date, the directors reviewed the carrying value of the investment securities by reference to the recoverable value of the underlying assets and liabilities and determined that the investment securities have been fully impaired.

Unlisted investments include an investment of HK\$4,730,000 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, which has been fully impaired during the year ended March 31, 2004.

## 16. Deferred Taxation

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

	Revaluation of properties HK\$'000	Accelerated tax depreciation HK\$'000	Tax losses HK\$'000	Unrealized profit in inventories HK\$'000	Total HK\$'000
<b>The Group</b>					
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
Charge (credit) to income for the year	–	34	1,160	(821)	373
Charge to equity for the year	894	–	–	–	894
<b>At March 31, 2005</b>	<b>15,743</b>	<b>1,493</b>	<b>(38)</b>	<b>(4,343)</b>	<b>12,855</b>

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:

	2005 HK\$'000	2004 HK\$'000
Deferred tax liabilities	16,383	15,237
Deferred tax assets	(3,528)	(3,649)
	<b>12,855</b>	<b>11,588</b>

**Notes to the Financial Statements**  
For the year ended March 31, 2005

**16. Deferred Taxation (Continued)**

At March 31, 2005, the Group has unused tax losses of HK\$24,502,000 (2004: HK\$28,685,000) available for offset against future profits. A deferred tax asset has been recognized in respect of HK\$216,000 (2004: HK\$6,848,000) of such losses. No deferred tax asset has been recognized in respect to the remaining HK\$24,286,000 (2004: HK\$21,837,000) due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At March 31, 2005, the Group also has deductible temporary differences of HK\$28,019,000 (2004: HK\$27,481,000) attributable to unrealized profit in inventories. A deferred tax asset has been recognized in respect of HK\$25,501,000 (2004: HK\$23,481,000) of such deductible temporary differences. No deferred tax asset has been recognized in respect of the remaining HK\$2,518,000 (2004: HK\$4,000,000) 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, 2005, the Company has unused tax losses of HK\$7,176,000 (2004: HK\$7,885,000) 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.

**17. Inventories**

	<b>The Group</b>	
	<b>2005</b> <b>HK\$'000</b>	2004 HK\$'000
Raw materials	<b>18,037</b>	14,676
Work in progress	<b>14,520</b>	19,659
Finished goods	<b>50,148</b>	80,962
	<b>82,705</b>	115,297

The amount of inventories, included in above, carried at net realizable value is HK\$60,778,000 (2004: HK\$67,021,000).

### 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\$47,450,000 (2004: HK\$62,993,000) and their aged analysis after credit period is as follows:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>46,595</b>	62,735
61 – 120 days	<b>855</b>	258
	<b>47,450</b>	62,993

### 19. Other Investments

	<b>The Group and the Company</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Listed equity investments in Hong Kong, at market value	<b>8,422</b>	7,776

### 20. Trade and Other Payables

Included in trade and other payables of the Group are trade payables of HK\$8,588,000 (2004: HK\$13,234,000) and their aged analysis after credit period is as follows:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
0 – 60 days	<b>8,270</b>	12,980
61 – 120 days	<b>315</b>	193
> 120 days	<b>3</b>	61
	<b>8,588</b>	13,234

**Notes to the Financial Statements**  
For the year ended March 31, 2005

## 21. Secured Bank Borrowings

	The Group	
	2005 HK\$'000	2004 HK\$'000
The secured bank borrowings are repayable as follows:		
Within one year or on demand	–	5,575
More than one year, but not exceeding two years	–	4,975
More than two year, but not exceeding five years	–	1,041
	–	11,591
Less: Portion classified as current liabilities	–	(5,575)
Non-current portion	–	6,016

All of the bank borrowings were fully repaid during the year.

## 22. Share Capital

	Number of shares		Share capital	
	2005 '000	2004 '000	2005 HK\$'000	2004 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	827,058	751,871	82,706	75,187
Bonus issue of share (Note)	82,706	75,187	8,271	7,519
At end of the year	909,764	827,058	90,977	82,706

*Note: Pursuant to the annual general meeting held on August 4, 2004, a bonus issue of shares on the basis of one share for every ten shares held was approved. 82,706,000 bonus shares were issued under the bonus issue and the amount HK\$8,271,000 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.

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. There is no movement or outstanding balance in the Company's share options granted under the 1997 Scheme during the two years ended March 31, 2005 and 2004.

**Notes to the Financial Statements**  
*For the year ended March 31, 2005*

**23. Share Option Schemes (Continued)**

- (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.

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 option 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 of 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.

### 23. Share Option Schemes (Continued)

(b) (Continued)

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.

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).

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For the year ended March 31, 2005

**23. Share Option Schemes (Continued)**

(c) (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, 2005 and 2004:

	Date of grant	Exercise price per share US\$	Outstanding at April 1, 2003 and March 31, 2004	Exercised during the year ended March 31, 2005	Outstanding at March 31, 2005
Directors	September 16, 1997	1.22	300,000	–	300,000
	March 26, 2003	1.10	250,000	–	250,000
			550,000	–	550,000
Other employees	September 16, 1997	1.22	150,000	(50,000)	100,000
			700,000	(50,000)	650,000

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 vested and became exercisable on March 26, 2005. The options expire on March 25, 2013.

There was 50,000 (2004: NIL) stock options exercised by a grantee during the year ended March 31, 2005.

It is not practicable to allocate the director entitlements between their services to each of MSH and its affiliates.

## 24. Reserves

	<b>Share premium</b>	<b>Contributed surplus</b>	<b>Accumulated (losses) profits</b>	<b>Total</b>
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>The Company</b>				
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
<b>Balance at March 31, 2004</b>	<b>68,209</b>	<b>206,459</b>	<b>84</b>	<b>274,752</b>
Balance at April 1, 2004	68,209	206,459	84	274,752
Capitalization on bonus issue of shares	(8,271)	–	–	(8,271)
Net profit for the year	–	–	930	930
<b>Balance at March 31, 2005</b>	<b>59,938</b>	<b>206,459</b>	<b>1,014</b>	<b>267,411</b>

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 reorganization 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 realizable 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, 2005 amounted to HK\$207,473,000 (2004: HK\$206,543,000), which represents the aggregate of contributed surplus of HK\$206,459,000 (2004: HK\$206,459,000) and accumulated profits of HK\$1,014,000 (2004: HK\$84,000).

**Notes to the Financial Statements**

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**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.

**26. Acquisition of a Business Unit**

During the year ended March 31, 2004, the Group acquired a business unit which is principally engaged in the manufacturing of jewelry products for a consideration of HK\$190,000.

	<b>The Group</b>	
	2005 HK\$'000	2004 HK\$'000
<b>Net assets acquired</b>		
Property, plant and equipment	–	1,020
Inventories	–	164
Trade and other receivables	–	578
Bank balances and cash	–	373
Trade and other payables	–	(1,945)
Consideration	–	190
<i>Satisfied by:</i>		
Offset against an receivable from the vendor	–	190

Analysis of net inflow of cash and cash equivalents in connection with the acquisition:

	2005 HK\$'000	2004 HK\$'000
Bank balances and cash acquired	–	373

## 27. 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:

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Carrying amount of leasehold land and buildings	<b>84,800</b>	74,980
Carrying amount of investment properties	<b>10,400</b>	132,662
	<b>95,200</b>	207,642

## 28. Capital Commitment

	<b>The Group</b>	
	<b>2005</b>	2004
	<b>HK\$'000</b>	HK\$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	<b>3,568</b>	4,419

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

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## 29. 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\$1,793,000 (2004: HK\$3,693,000).

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:

	<b>The Group</b>	
	2005 HK\$'000	2004 HK\$'000
Operating leases which expire:		
Within one year	1,773	448
In the second to fifth year inclusive	431	6
	2,204	454

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\$4,646,000 (2004: HK\$6,220,000). Most of the investment properties held have committed tenants for the next one to three years.

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

	<b>The Group</b>	
	2005 HK\$'000	2004 HK\$'000
Within one year	3,282	2,941
In the second to fifth year inclusive	3,659	3,577
Over five years	509	–
	7,450	6,518

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



### **30. Contingent Liabilities**

At the balance sheet date, 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 the balance sheet date amounted to HK\$NIL (2004: HK\$11,591,000).

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

### **31. 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.

### **32. Related Party Transactions**

During the year, Messrs. Yuen & Partners received professional fees of HK\$237,000 (2004: HK\$375,000) for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, an ex-independent non-executive director of the Company (resigned as a director during the year) and the Chairman of Audit Committee and an independent non-executive director of MSH, is a partner of Yuen & Partners.

During the year, the Group sold jewelry products amounting to HK\$636,000 (2004: HK\$298,000) to China South International Industrial Materials City (Shenzhen) Co., Ltd. (“CSII”), a company in which Messrs. Cheng Chung Hing and Cheng Tai Po have beneficial interests.

**Notes to the Financial Statements**  
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**32. Related Party Transactions (Continued)**

In addition, a reimbursement amounting to HK\$554,000 was received from CSII for the salaries of staff who have provided services to CSII during the year.

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

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

**33. 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\$981,000 (2004: HK\$820,000) represents contributions payable to these schemes by the Group in respect of the current accounting period.

### 34. Particulars of Subsidiaries

Particulars of the Company's subsidiaries at March 31, 2005 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 and subcontracting
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 Assess 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 investment
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\$23,600,000	100%	Purchasing and processing of pearls and assembling of pearl jewelry and property investment

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**34. 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
4376zone.com Limited	Hong Kong	Ordinary shares HK\$5,000	100%	Trading of pearls and e-commerce trading of jewelry

*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 meeting of the company or to participate in any distribution on winding up.*

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