

Directors' Report

The directors present their annual report and the audited financial statements for the year ended March 31, 2006.

Principal Activities

The Company acts as an investment holding company. The Group is principally engaged in the purchasing, processing, assembling, merchandising, wholesale distribution of pearls and jewelry products. The principal activities of the subsidiaries are set out in note 38 to the financial statements.

Results

The results of the Group for the year ended March 31, 2006 are set out in the consolidated income statement on page 26.

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

Investment Properties

The Group's investment properties were revalued at March 31, 2006 at approximately HK\$94.9 million. The increase in fair value amounting to approximately HK\$0.04 million has been credited to the consolidated income statement.

During the year, construction in progress with a carrying amount of approximately HK\$17.2 million was transferred to investment properties.

Details of these and other movements during the year in the investment properties of the Group are set out in note 13 to the financial statements.

Property, Plant and Equipment

The Group's leasehold land and buildings were revalued at March 31, 2006. The revaluation resulted in a revaluation increase amounting to approximately HK\$13.1 million, of which HK\$13.0 million has been credited to the other property revaluation reserve and HK\$0.1 million has been credited to the consolidated income statement.

Construction in progress with a carrying amount of HK\$18.6 million were transferred to investment properties, leasehold land and buildings and plant and machinery.

Details of these and other movements during the year in the property, plant and equipment of the Group are set out in note 14 to the financial statements.

Share Capital

On August 1, 2005, 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 26 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' Report

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
Mr. Kiu Wai Ming, Kenneth
Mr. Lau Chi Wah, Alex

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 Listing Rules on The Stock Exchange of Hong Kong Limited, Ms. Yan Sau Man, Amy and Mr. Lee Kang Bor, Thomas retire by rotation and, being eligible, offer themselves for re-election.

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.

None of the Directors being proposed for re-election at the forthcoming annual general meeting has any service contract which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

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

At March 31, 2006, the interests and short position of the directors and their associates in the share capital and underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), as recorded in the register required to be kept by the Company pursuant to Section 352 of the 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 Issuers (the "Model Code"), were as follows:

Directors' Report

(a) Ordinary shares of the Company

Name of director	Capacity	Number of ordinary shares of HK\$0.10 each held			Percentage of the issued share capital of the Company
		Direct interest	Deemed interest <i>(Note)</i>	Total interest	
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	101,139,241	494,406,000	595,545,241	59.51%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	76,086,179	494,406,000	570,492,179	57.01%

Note: These shares were indirectly owned by (a) Man Sang Holdings, Inc. ("MSH"), a company incorporated in the State of Nevada, the United States of America and (b) Cafoong Limited ("Cafoong"), a company incorporated in the British Virgin Islands. Both MSH and Cafoong held their interest in shares of the Company, through an indirect interest in Man Sang International (B.V.I.) Limited ("MSBVI"), a company incorporated in the British Virgin Islands which directly holds these 494,406,000 shares. Cafoong indirectly holds 100% equity interest in MSBVI through MSH, in which Cafoong holds 53.86% of the common stock and all the Series A preferred stock at March 31, 2006, which totally represent 69.24% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po own 60% and 40% of the issued share capital of Cafoong, respectively.

(b) 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			Percentage of common stock of MSH
		Direct interest	Deemed interest <i>(Note)</i>	Total interest	
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	312,500	3,437,501	3,750,001	58.75%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	250,000	3,437,501	3,687,501	57.78%

Note: These shares were directly and indirectly owned by Cafoong. Cafoong holds 53.86% of the common stock and all the Series A preferred stock of MSH at March 31, 2006, which totally represent 69.24% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong, respectively.

Directors' Report

(c) Stock options of an associated corporation – MSH

At March 31, 2006, there were no outstanding stock options of MSH. All outstanding stock options of MSH have been exercised during the year. No options were available for future grant under the stock option plan of MSH adopted on October 17, 1996 as the plan was terminated during the year.

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, 2006.

Share Options

Particulars of the Company's share option scheme which was adopted on August 2, 2002 are set out in note 27 to the financial statements.

The following table discloses the particulars of the share option granted to directors of the Company:–

Name of director	Capacity	Date of grant	Number of share options of the Company held (Note)	Number of underlying shares
Mr. Cheng Chung Hing	Beneficial owner	May 2, 2006	1,000,000	1,000,000
Mr. Cheng Tai Po	Beneficial owner	May 2, 2006	1,000,000	1,000,000
Ms. Yan Sau Man, Amy	Beneficial owner	May 2, 2006	10,000,000	10,000,000

Note: The share options were granted under the Company's share option scheme adopted on August 2, 2002 and entitle the holders thereof to subscribe for ordinary shares of HK\$0.10 each in the Company. For share options granted on May 2, 2006, the holders can subscribe for the ordinary shares at a subscription price of HK\$0.253 per share, which is determined by the arithmetic average of the closing price of the Company's shares for each of the five trading days immediately prior to and including May 2, 2006. The share options are exercisable from May 2, 2006 to May 1, 2012. The options expire on May 1, 2012.

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.

Directors' Report

Connected Transactions

During the year, Messrs. Yuen & Partners received professional fees of HK\$493,000 for the provision of legal and professional services to the Group. Mr. Yuen Ka Lok, Ernest, resigned as an independent non-executive director and the Chairman of the audit committee of MSH on January 13, 2006. He is a partner of Yuen & Partners.

During the year, the Group sold jewelry products amounting to HK\$313,000 and receive reimbursement of staff cost of HK\$582,000 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.

During the year, a motor vehicle was disposed to China South City Holdings Limited at a net book value of HK\$914,000 and rental expenses paid to China South City Holdings Limited during the year was amounted to HK\$152,000. Both Messrs. Cheng Chung Hing and Cheng Tai Po, directors of the Company, have beneficial interests in China South City Holdings Limited.

Directors' interests in Contracts of Significance

Save as disclosed above and under the section headed "Connected Transactions" above, no contract of significance to which the Company, its subsidiaries, its holding companies or any subsidiaries of its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Substantial Shareholders

At March 31, 2006, according to 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		
MSBVI	Beneficial owner	494,406,000	–	49.40%	
MSH	Held by a controlled corporation	–	494,406,000	49.40%	1
Cafoong	Held by a controlled corporation	–	494,406,000	49.40%	2

Notes:

1. This represented the deemed interest in 494,406,000 shares in the Company held by MSBVI which is a wholly-owned subsidiary of MSH.
2. This represented the deemed interest in 494,406,000 shares in the Company held by MSBVI whereby Cafoong together with its wholly owned subsidiaries directly and indirectly holds 53.86% of the common stock and all of the Series A preferred stock of MSH at March 31, 2006, represented 69.24% of the voting rights of MSH.

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, 2006.

Directors' Report

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\$1,369,000.

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

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

Sufficiency of Public Float

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public as at the date of this report.

Auditors

Deloitte Touche Tohmatsu was the auditors for the year ended March 31, 2004. Moores Rowland Mazars was first appointed as auditors upon the resignation of Deloitte Touche Tohmatsu during the year ended March 31, 2005. Moores Rowland Mazars 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, 2006

