Notes to the Financial Statements

For the year ended March 31, 2006

1. General Information

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 address of the registered office and other corporate information are set out on page 2 of this annual report. The Company's immediate holding company is Man Sang International (B.V.I.) Limited and its ultimate holding company is Cafoong Limited, both of which are 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. Significant Accounting Policies

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), a collective term which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("HKAS-Int") issued by the Hong Kong Institute of Certified Public Accountants (the "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 HKFRSs which are generally effective for accounting periods beginning on or after January 1, 2005. Details of major changes in accounting policies following the adoption of these HKFRSs are summarized in note 3 to the financial statements.

(b) Basis of preparation

The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, investment properties, leasehold land and buildings, which are stated at fair value as explained in the accounting policies set out below.

(c) 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 intra-group transactions and balances and any unrealized profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealized losses resulting from intra-group transactions are eliminated in the same way as unrealized profits but only to the extent that there is no evidence of impairment.

2. Significant Accounting Policies (Continued)

(d) Subsidiaries

A subsidiary is an entity, in which the Company, directly or indirectly, has the power to govern the financial and operating policies so as to obtain benefits from its activities.

Investment in subsidiaries is included in the Company's balance sheet at cost less impairment losses. The carrying amount of investment is reduced to its recoverable amount on an individual basis. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(e) Associates

An associate is an entity over which the group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

Investment in associates is accounted for in the consolidated financial statements under the equity method and is initially recorded at cost and adjusted thereafter for the post-acquisition change in the Group's share of the net assets of the associates. The consolidated income statement includes the Group's share of the post-acquisition, post-tax results of the associates for the year, including any impairment loss on goodwill relating to the investment in associates.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Unrealized profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates, except where unrealized losses provide evidence of an impairment of the asset transferred, in which case they are recognized immediately in the income statement.

(f) Investment properties

Investment properties are land and/or buildings that are held to earn rental income and/or for capital appreciation, which include property interest held under operating lease carries at fair value.

Investment properties are stated at fair value at the balance sheet date. Any gain or loss arising from a change in fair value is recognized in the income statement. Profit or loss on disposal of investment properties is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the income statement upon disposal.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

2. Significant Accounting Policies (Continued)

(f) Investment properties (Continued)

The fair value of investment properties is based on valuation by an independent valuer who holds a recognized professional qualification and has recent experience in the location and category of property being valued. Fair value is based on market value, being the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is completed, at which time it is reclassified and subsequently accounted for as an investment property.

(g) Property, plant and equipment

Property, plant and equipment, other than leasehold land and buildings and construction in progress, are stated at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the income statement during the year in which they are incurred.

The leasehold 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 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 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.

Leasehold land and buildings transferred from investment properties are stated at deemed cost equal to its fair value at the date of change in use and is continued to account for as if it was an asset held under finance lease. The entire lease payment of leasehold land and buildings are included in the cost of land and buildings as a finance lease in property, plant and equipment and stated at revalued amount.

2. Significant Accounting Policies (Continued)

(g) Property, plant and equipment (Continued)

Depreciation is provided to write off the cost or valuation less accumulated impairment losses, other than construction in progress, over their estimated useful lives from the date on which they are available for use 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%

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss arising from the disposal or retirement of property, plant and equipment is determined as the difference between the estimated net sales proceeds and the carrying amount of the assets and is taken to the income statement.

Construction in progress is stated at cost less accumulated impairment losses. Costs include 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 and available for use. The cost of completed construction work is transferred to the appropriate category of property, plant and equipment.

(h) Prepaid land lease payments

Prepaid land lease payments are up-front payments to acquire medium-term interests in lessee-occupied properties. The payments are stated at cost and are amortized over the period of the lease on a straight-line basis to the income statement.

(i) Financial instruments

Financial assets and financial liabilities are recognized on the trade date basis, and when the Group become a party to the contractual provisions of the instruments. Financial assets and financial liabilities are initially measured at cost, being the fair value of the consideration given and except for financial assets or financial liabilities at fair value through profit or loss, including transaction costs directly attributable to the acquisition. The derecognition of a financial asset takes place when the Group's contractual rights to future cash flows from the financial asset expire or the Group transfers the contractual rights to future cash flows to third party. The Group derecognizes financial liability when, and only when the liability is extinguished. The Group classifies its financial assets and financial liabilities into the following categories.

Financial assets or financial liabilities at fair value through profit or loss

Financial instruments classified as financial assets or financial liabilities at fair value through profit or loss include financial assets or financial liabilities that are held for trading or derivatives do not qualify for hedge accounting, and those designated at fair value through profit or loss at inception. They are measured at fair value and recognise changes in fair value in the income statement.

2. Significant Accounting Policies (Continued)

(i) Financial instruments (Continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated as this category or not classified in any of the other categories. They are measured at fair value with changes in value recognized as a separate component of equity until the investments are sold, collected or otherwise disposed of, or until the investments are determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the income statement. Available-for-sale financial assets that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are stated at cost less impairment losses.

(j) Impairment loss

At each balance sheet date, the Group reviews internal and external sources of information to determine whether the carrying amount of its property, plant and equipment, investment in associates and investment in subsidiaries have suffered an impairment loss or impairment loss previously recognized no longer exists or may be reduced. If any such indication exists, the recoverable amount of the asset is estimated, based on the higher of its fair value less costs to sell and value in use. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

If the recoverable amount of an asset or a cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. Impairment losses are recognized as an expense immediately, except that the relevant asset is carried at valuation in which case the impairment loss is treated as a revaluation decrease.

A reversal of impairment losses is limited to the carrying amount of the asset or cash-generating unit that would have been determined had no impairment loss been recognized in prior years. Reversal of impairment losses is recognized as income immediately, except where the relevant asset is carried at valuation, in which case the reversal of impairment loss is treated as a revaluation increase.

(k) Inventories

Inventories are stated at the lower of cost and net realizable value. Cost, which comprises all costs of purchase and, where applicable, cost of conversion and other costs that have been incurred in bringing the inventories to their present location and condition, is calculated using the weighted average cost method. Net realizable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(l) Trade and other receivables

Trade and other receivables are initially recognized at fair value and thereafter stated at amortized cost less impairment losses for bad and doubtful debts except where the receivables are interest-free loans made to related parties without any fixed repayment terms. In such cases, the receivables are stated at cost less impairment losses for bad and doubtful debts.

2. Significant Accounting Policies (Continued)

(m) Trade and other payables

Trade and other payables are initially recognized at fair value and thereafter stated at amortized cost.

(n) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(o) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Company and when the revenue and cost, if applicable, can be measured reliably and on the following bases.

Sale of goods is recognized on transfer of risks and rewards of ownership, which generally coincides with time when the goods are delivered to customers and title has passed.

Service income is recognized in the period when services are provided.

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

Rental income under operating leases is recognized in the period in which the properties are let out and on a straight-line basis over the term of the relevant lease.

Dividend income from investments is recognized when the rights to receive payments have been established.

(p) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format and geographical segment information as the secondary reporting format for the purposes of these financial statements.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

2. Significant Accounting Policies (Continued)

(p) Segment reporting (Continued)

Unallocated items mainly comprise financial and corporate assets, borrowings, tax balances, corporate and financing expenses.

(q) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(iii) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates;

– all resulting exchange differences are transferred to the Group's translation reserve and recognized as a separate component of equity. Such translation differences are recognized as income or as expenses in the period in which the operation is disposed of.

(r) Taxation

The charge for current income tax is based on the results for the year as adjusted for items that are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is provided, using the liability method, on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting profit nor taxable profit or loss, it is not accounted for.

The deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is recovered or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, tax losses and credits can be utilized.

2. Significant Accounting Policies (Continued)

(s) 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.

(t) Related parties

A party is related to the Group if:

(i) directly, or indirectly through one or more intermediaries, the party controls, is controlled by, or is under common control with, the Group; or has an interest in the Group that gives it significant influence over the Group; or has joint control over the Group;

(ii) the party is an associate of the Group;

(iii) the party is a joint venture in which the Group is a venturer;

(iv) the party is a member of the key management personnel of the Group or its shareholders;

(v) the party is a close member of the family of any individual referred to in (i) or (iv);

(vi) the party is an entity that is controlled, jointly controlled or significantly influenced by or for which significant voting power in such entity resides with, directly or indirectly, any individual referred to in (iv) or (v); or

(vii) the party is a post-employment benefit plan for the benefit of employees of the Group, or any entity that is a related party of the Group.

(u) Retirement benefits scheme

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

(v) Future changes in HKFRSs

At the date of authorization of these financial statements, the HKICPA has issued a number of new/revised HKFRSs that are not yet effective and the Group has not early adopted. The directors anticipate that the adoption of these new/revised HKFRSs in the future accounting periods will have no significant impact on the result of the Group.

3. Changes in Accounting Policies

The HKICPA has issued a number of new and revised HKFRSs that are effective for accounting periods beginning on or after January 1, 2005.

The accounting policies of the Group and/or Company after the adoption of these new and revised HKFRSs have been summarized in note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) Changes in accounting policies

Leasehold land and buildings held for own use (HKAS 17 Leases)

In prior years, leasehold land and buildings held for own use were stated at revalued amounts less accumulated depreciation and accumulated impairment losses. Movements of revaluation surpluses or deficits were normally taken to the other property revaluation reserve.

With effect from January 1, 2005, in order to comply with HKAS 17, the Group has adopted a new policy for leasehold land and buildings held for own use. Under the new policy, the leasehold interest in the land held for own use is accounted for as being held under an operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately from the fair value of the leasehold interest in the land at the time the lease was first entered into by the Group, or taken over from the previous lessee, or at the date of construction of those buildings, if later.

The prepaid land lease payments are accounted for as operating lease and stated at cost and amortized over the period of lease whereas the buildings held for own use which are situated on such land leases continue to be carried at revalued amount and presented as part of property, plant and equipment.

This change in accounting policies has been applied retrospectively.

Financial instruments (HKAS 32 Financial Instruments: Disclosure and Presentation and HKAS 39 Financial Instruments: Recognition and Measurement)

The adoption of HKAS 32 and HKAS 39 has resulted in a change in accounting policy for recognition, measurement, derecognition and disclosure of financial instruments. Until March 31, 2005, the Group and the Company classified investments into investment securities and other investments. Investment securities were stated at cost less provision for impairment losses that was expected to be other than temporary. Other investments were stated at their fair value and changes in fair value were recognized in income statement as they arisen.

In accordance with the provisions of HKAS 39, the investments have been classified into financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Details of accounting policies are set out in note 2(i) to the financial statements.

Upon the adoption of HKAS 32 and HKAS 39, the Group and the Company's investment securities and other investments were re-designated as available-for-sale financial assets and financial assets at fair value through profit or loss respectively. They have been re-measured in accordance with HKAS 39 as appropriate. The adoption of HKAS 32 and 39 had no significant impact on the results and financial positions of the current and prior accounting periods. No prior period adjustments were required.

3. Changes in Accounting Policies (Continued)

(a) Changes in accounting policies (Continued)

Investment property (HKAS 40 Investment Property)

In prior years, investment properties were stated at market values with revaluation increase or decrease credited or charged to 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.

Upon adoption of HKAS 40, the Group has elected to use the fair value model to account for its investment properties which required changes in the fair value of investment properties to be recognized directly in the income statement for the period in which they arise. The new accounting policy has been applied retrospectively.

Measurement of deferred tax on movements in fair value of investment properties (HKAS-Int 21 Income Taxes – Recovery of Revalued Non-Depreciable Assets)

The adoption of HKAS-Int 21 has resulted in a change in the accounting policy relating to the measurement of deferred tax liabilities arising from the revaluation of investment properties. Such deferred tax liabilities are measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use. In prior years, the carrying amount of that asset was expected to be recovered through sale. The new accounting policy has been applied retrospectively.

Definition of related parties (HKAS 24 Related Party Disclosures)

As a result of the adoption of HKAS 24 Related party disclosures, the definition of related parties as disclosed in note 2(t) has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group. The clarification of the definition of related parties has not resulted in any material changes to the previously reported disclosures of related party transactions nor has it had any material effect on the disclosures made in the current period.

3. Changes in Accounting Policies (Continued)

(b) Restatement of prior period balances/Estimated effects of changes in accounting policies on current period

The Group

	Income statement		Balance sheet	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
HKAS 17				
Decrease in property, plant and equipment	–	–	(41,426)	(36,038)
Increase in prepaid land lease payments	–	–	32,030	32,794
Decrease in deferred tax liabilities	–	–	2,119	150
Decrease in other property revaluation reserve	–	–	5,116	638
Decrease in accumulated profits	–	–	2,161	2,457
Decrease (Increase) in administrative expenses	74	(131)	–	–
Increase in revaluation surplus on buildings	80	30	–	–
Decrease in revaluation surplus on leasehold land and buildings	(340)	(5,392)	–	–
Decrease in taxation	738	64	–	–
HKAS 40 and HKAS-Int 21				
Decrease in investment property revaluation reserve	–	–	3,901	9,764
Increase in accumulated profits	–	–	(10,611)	(16,889)
Decrease in deferred tax assets	–	–	(569)	(155)
Decrease in deferred tax liabilities	–	–	7,279	7,279
Increase in other operating income	–	10	–	–
Increase in revaluation surplus on investment properties	40	3,146	–	–
(Increase) Decrease in taxation	(415)	6,166	–	–
Decrease in gain on disposal of an investment property	–	(33,388)	–	–
	177	(29,495)	–	–

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

Segment information is presented in respect of the Group's business and geographical segments. Business segment information is chosen as the primary reporting format.

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 distribution of pearls and jewelry products.

Property investment – Leasing of properties.

Segment information about these businesses is presented below:

Income statement (For the year ended March 31, 2006)

	Pearls HK$'000	Property investment HK$'000	Consolidated HK$'000
Revenue			
External sales or rentals	378,297	3,362	381,659
Results			
Segment results	40,176	(2,117)	38,059
Unallocated other operating income			12,210
Unallocated corporate expenses			(3,453)
Profit from operations			46,816
Finance costs			–
Profit before taxation			46,816
Taxation			(3,836)
Profit for the year			42,980

5. Business and Geographical Segments (Continued)

Balance sheet (At March 31, 2006)

	Pearls HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets			
Segment assets	494,308	94,863	589,171
Interest in an associate	1,692	–	1,692
Unallocated corporate assets			63,792
Consolidated total assets			654,655
Liabilities			
Segment liabilities	30,294	2,316	32,610
Unallocated corporate liabilities			13,620
Consolidated total liabilities			46,230

Other information (For the year ended March 31, 2006)

	Pearls HK$'000	Property investment HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Capital additions	4,657	2,085	–	6,742
Depreciation of property, plant and equipment	6,442	–	101	6,543
Amortization of prepaid land lease payments	8	–	756	764
Allowance for bad and doubtful debts	286	–	–	286
Increase in fair value of investment properties	–	40	–	40
Revaluation increase on buildings	–	–	81	81
Net unrealized gain on financial assets at fair value through profit or loss	–	–	3,274	3,274

5. Business and Geographical Segments (Continued)

Income statement (For the year ended March 31, 2005)

	Pearls HK$'000 (Restated)	Property investment HK$'000 (Restated)	Consolidated HK$'000 (Restated)
Revenue			
External sales or rentals	412,262	4,646	416,908
Results			
Segment results	45,123	(1,673)	43,450
Unallocated other operating income			3,107
Unallocated corporate expenses			(4,524)
Profit from operations			42,033
Finance costs			(100)
Profit before taxation			41,933
Taxation			85
Profit for the year			42,018

Balance sheet (At March 31, 2005)

	Pearls HK$'000 (Restated)	Property investment HK$'000	Consolidated HK$'000 (Restated)
Assets			
Segment assets	447,157	92,738	539,895
Unallocated corporate assets			56,535
Consolidated total assets			596,430
Liabilities			
Segment liabilities	28,217	1,948	30,165
Unallocated corporate liabilities			13,250
Consolidated total liabilities			43,415

5. Business and Geographical Segments (Continued)

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

	Pearls HK$'000 (Restated)	Property investment HK$'000 (Restated)	Corporate and others HK$'000 (Restated)	Consolidated HK$'000 (Restated)
Capital additions	8,536	1,473	–	10,009
Depreciation of property, plant and equipment	5,881	–	100	5,981
Amortization of prepaid land lease payments	8	–	756	764
Impairment loss on investment securities	–	–	856	856
Allowance for bad and doubtful debts	8,210	847	–	9,057
Increase in fair value of investment properties	–	3,146	–	3,146
Revaluation increase on buildings	–	–	30	30
Impairment loss on property, plant and equipment	2,617	–	–	2,617
Net unrealized gain on listed other investments	–	–	646	646

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, 2006 HK$'000	Year ended March 31, 2005 HK$'000	**Year ended March 31, 2006 HK$'000**	Year ended March 31, 2005 HK$'000 (Restated)
Hong Kong	**39,218**	46,700	**6,073**	6,575
North America	**109,467**	145,099	**10,991**	17,061
Europe	**133,469**	122,674	**10,592**	12,013
Japan	**42,773**	46,145	**6,055**	6,930
Other Asian countries	**36,901**	41,016	**2,169**	(975)
Others	**19,831**	15,274	**2,179**	1,846
	381,659	416,908	**38,059**	43,450
Unallocated other operating income			**12,210**	3,107
Unallocated corporate expenses			**(3,453)**	(4,524)
Profit from operations			**46,816**	42,033

5. Business and Geographical Segments (Continued)

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, 2006 HK$'000	Year ended March 31, 2005 HK$'000 (Restated)	**Year ended March 31, 2006 HK$'000**	Year ended March 31, 2005 HK$'000
Hong Kong	**515,238**	463,471	**1,533**	3,343
PRC	**132,866**	129,586	**5,209**	6,666
	648,104	593,057	**6,742**	10,009

6. Investment Income

	2006 HK$'000	2005 HK$'000
Interest income	**6,674**	978
Dividends received from financial assets at fair value through profit or loss/other investments	**292**	235
Gain on disposal of financial assets at fair value through profit or loss	**706**	–
	7,672	1,213

7. Profit from Operations

	2006 HK$'000	2005 HK$'000 (Restated)
Profit from operations has been arrived at after charging/(crediting):		
(a) Staff costs (including directors' emoluments):		
Salaries, wages and other benefits	43,573	46,521
Contributions to defined contribution retirement plans	901	981
	44,474	47,502
(b) Other items		
Allowance for bad and doubtful debts	286	9,057
Auditors' remuneration	680	943
Costs of inventories	272,443	295,014
Provision for inventories	25,000	32,300
Depreciation of property, plant and equipment	6,543	5,981
Amortization of prepaid land lease payments	764	764
Gain on disposal of property, plant and equipment and an investment property	(1)	(146)
Operating lease charges:		
Hire of motor vehicle	152	–
Premises	1,826	1,793
Rental income from investment properties under operating leases (net of outgoings of HK$253,000 *(2005: HK$124,000)*)	(3,109)	(4,522)

8. Directors' and Employees' Remuneration

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

(a) Directors' remuneration

	Fees HK$'000	Salaries and other allowances HK$'000	Performance related incentive payment HK$'000	Retirement benefit contributions HK$'000	Approximate ratable value of a property for accommodation HK$'000	2006 Total HK$'000
Executive:						
Mr. Cheng Chung Hing	–	3,000	–	12	920	3,932
Mr. Cheng Tai Po	–	3,000	–	12	21	3,033
Ms. Yan Sau Man, Amy	–	1,500	1,500	12	–	3,012
Independent non-executive:						
Mr. Lee Kang Bor, Thomas	133	–	–	–	–	133
Mr. Kiu Wai Ming, Kenneth	108	–	–	–	–	108
Mr. Lau Chi Wah, Alex	108	–	–	–	–	108
	349	7,500	1,500	36	941	10,326

	Fees HK$'000	Salaries and other allowances HK$'000	Performance related incentive payment HK$'000	Retirement benefit contributions HK$'000	Approximate ratable value of a property for accommodation HK$'000	2005 Total HK$'000
Executive:						
Mr. Cheng Chung Hing	–	3,000	–	12	805	3,817
Mr. Cheng Tai Po	–	3,000	–	12	18	3,030
Ms. Yan Sau Man, Amy	–	1,500	1,500	12	–	3,012
Independent non-executive:						
Mr. Lee Kang Bor, Thomas	120	–	–	–	–	120
Mr. Alexander Reid Hamilton	54	–	–	–	–	54
Mr. Yuen Ka Lok, Ernest	57	–	–	–	–	57
Mr. Kiu Wai Ming, Kenneth	59	–	–	–	–	59
Mr. Lau Chi Wah, Alex	66	–	–	–	–	66
	356	7,500	1,500	36	823	10,215

8. Directors' and Employees' Remuneration (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three *(2005: three)* were directors of the Company whose emoluments are set out in note 8(a) above. The emoluments of the remaining two *(2005: two)* individuals are as follows:

	2006 HK$'000	2005 HK$'000
Salaries and other allowances	2,144	1,982
Retirement benefits contributions	12	24
	2,156	2,006

Their emoluments are within the following bands:

	No. of employees	
	2006	2005
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, 2006 and 2005, no emoluments were paid by the Group to the five highest paid individuals, including directors, as an inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended March 31, 2006 and 2005, no directors waived any emoluments.

9. Finance Costs

	2006 HK$'000	2005 HK$'000
Interest on bank borrowings wholly repayable within five years	–	100

10. Taxation

	2006 HK$'000	2005 HK$'000 (Restated)
Current tax:		
Hong Kong	5,730	6,531
PRC	172	–
	5,902	6,531
Overprovision in prior year:		
Hong Kong	(6)	(277)
PRC	–	(482)
	(6)	(759)
Deferred tax:		
Current year	(2,060)	(5,857)
	3,836	(85)

Hong Kong Profits Tax is calculated at a rate of 17.5% of the estimated assessable profit for both years.

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

10. Taxation (Continued)

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

	2006 HK$'000	2005 HK$'000 (Restated)
Profit before taxation	**46,816**	41,933
Tax at the domestic income tax rate of 17.5% *(2005: 17.5%)*	**8,193**	7,338
Tax effect of expenses that are not deductible in determining taxable profit	**871**	716
Tax effect of income that is not taxable in determining taxable profit	**(3,733)**	(767)
Tax effect of utilization of tax loss not previously recognized	**(1,136)**	(923)
Tax effect of recognition of previously unrecognized tax losses	**(530)**	–
Tax effect of recognition of temporary difference not previously recognized	**(221)**	(6,796)
Tax effect of additional tax loss not recognized	**23**	1,115
Effect of different tax rates of subsidiaries operating in other jurisdictions	**151**	275
Overprovision in prior year	**(6)**	(759)
Others	**224**	(284)
Tax expense (credit) for the year	**3,836**	(85)

Details of the deferred taxation are set out in note 19 to the financial statements.

11. Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a profit of HK$5,145,000 *(2005: HK$930,000)* which has been dealt with in the financial statements of the Company.

12. Earnings Per Share

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders for the year of HK$42,980,000 *(2005 (restated): HK$42,018,000)* and on 1,000,740,000 *(2005: 1,000,740,000)* 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, 2006 and 2005.

The number of ordinary shares for both years for the purpose of basic earnings per share has been adjusted for the bonus issue approved pursuant to the annual general meeting held on August 1, 2005.

12. Earnings Per Share (Continued)

The adjustments to comparative earnings per share are as follows:

	HK cents
Reported figure before adjustments	7.86
Effect of adoption of HKFRSs	(3.24)
Restated figure before bonus issue adjustments	4.62
Adjustment arising from the bonus issue	(0.42)
Restated figure	4.20

13. Investment Properties

	The Group	
	2006	2005
	HK$'000	HK$'000
At fair value		
At beginning of year	**77,650**	153,760
Disposal during the year	**–**	(71,600)
Transferred from (to) property, plant and equipment	**17,173**	(7,656)
Increase in fair value	**40**	3,146
At balance sheet date	**94,863**	77,650

The Group's investment properties at March 31, 2006 were revalued by BMI Appraisals Limited, an independent firm of professional property valuers, on market value basis, at HK$94,863,000. The increase in fair value amounted to HK$40,000 of the investment properties has been credited to the income statement.

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

The carrying value of investment properties shown above comprises:

	The Group	
	2006	2005
	HK$'000	HK$'000
Land and buildings situated in Hong Kong and held under long leases	**31,490**	29,050
Land and buildings situated in the PRC and held under medium-term land use rights	**63,373**	48,600
	94,863	77,650

14. Property, Plant and Equipment

	Leasehold land and buildings HK$'000	Buildings HK$'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
The Group								
Cost or valuation								
At April 1, 2004								
As previously reported	78,100	–	21,926	14,273	12,707	11,360	4,577	142,943
Effect of adoption of HKAS 17	(47,640)	16,780	–	–	–	–	–	(30,860)
As restated	30,460	16,780	21,926	14,273	12,707	11,360	4,577	112,083
Currency realignment	–	–	(81)	111	3	(8)	1	26
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	–	–
Revaluation increase (decrease)	18,540	(1,214)	–	–	–	–	–	17,326
At March 31, 2005	49,000	32,799	15,088	13,657	15,564	12,761	5,056	143,925
Currency realignment	–	–	275	149	220	77	56	777
Additions	–	–	3,259	495	1,996	565	427	6,742
Disposals	–	–	–	–	–	(77)	(1,364)	(1,441)
Transfer upon completion	–	1,410	(1,449)	–	39	–	–	–
Transfer to investment properties	–	–	(17,173)	–	–	–	–	(17,173)
Revaluation increase (decrease)	10,800	(225)	–	–	–	–	–	10,575
At March 31, 2006	**59,800**	**33,984**	**–**	**14,301**	**17,819**	**13,326**	**4,175**	**143,405**
Comprising:								
At cost	–	–	–	14,301	17,819	13,326	4,175	49,621
At valuation – 2006	59,800	33,984	–	–	–	–	–	93,784
	59,800	33,984	–	14,301	17,819	13,326	4,175	143,405

14. Property, Plant and Equipment (Continued)

	Leasehold land and buildings HK$'000	Buildings HK$'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
The Group								
Accumulated depreciation								
At April 1, 2004								
As previously reported	–	–	–	12,011	7,705	8,412	4,116	32,244
Currency realignment	–	–	–	11	(28)	(14)	1	(30)
Provided for the year	708	695	–	932	1,656	1,413	577	5,981
Eliminated on disposals	–	–	–	(838)	(176)	(382)	(1,595)	(2,991)
Impairment loss	–	–	–	–	2,617	–	–	2,617
Eliminated on revaluation	(708)	(695)	–	–	–	–	–	(1,403)
At March 31, 2005	–	–	–	12,116	11,774	9,429	3,099	36,418
Currency realignment	–	–	–	146	180	28	40	394
Provided for the year	1,167	1,312	–	705	1,449	1,391	519	6,543
Eliminated on disposals	–	–	–	–	–	(77)	(450)	(527)
Eliminated on revaluation	(1,167)	(1,312)	–	–	–	–	–	(2,479)
At March 31, 2006	**–**	**–**	**–**	**12,967**	**13,403**	**10,771**	**3,208**	**40,349**
Net book value								
At March 31, 2006	**59,800**	**33,984**	**–**	**1,334**	**4,416**	**2,555**	**967**	**103,056**
At March 31, 2005 (Restated)	49,000	32,799	15,088	1,541	3,790	3,332	1,957	107,507

14. Property, Plant and Equipment (Continued)

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

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Land and buildings situated in Hong Kong and held under medium-term leases	**64,110**	53,330
Buildings situated in the PRC and held under medium-term land use rights	**29,674**	28,469
	93,784	81,799

The Group's leasehold land and buildings at March 31, 2006 were revalued by BMI Appraisals Limited, which is an independent firm of professional property valuers, on market value basis, at HK$93,784,000. The revaluation increase arising from revaluation of the leasehold land and buildings amounted to HK$13,054,000, of which HK$12,973,000 has been credited to other property revaluation reserve and HK$81,000 has been credited to the income statement respectively.

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$52,922,000 *(2005 (restated): HK$52,307,000)*.

15. Prepaid Land Lease Payments

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
At beginning of year		
As previously reported	**–**	–
Effect of adoption of HKAS 17	**32,794**	33,558
As restated	**32,794**	33,558
Amortization	**(764)**	(764)
At balance sheet date	**32,030**	32,794

15. Prepaid Land Lease Payments (Continued)

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
The net book value are analyzed as follows:		
Situated in Hong Kong held under medium-term leases	**31,769**	32,525
Situated in the PRC held under medium-term land use rights	**261**	269
	32,030	32,794

The cost is amortized over the lease period. The amount to be amortized within the next twelve months after the balance sheet date amounted to HK$764,000 *(2005: HK$764,000)*.

16. Interest in an Associate

	The Group	
	2006	2005
	HK$'000	HK$'000
Unlisted shares, at cost	**–**	–
Due from an associate	**1,692**	–
	1,692	–

The amount due from an associate is unsecured, interest-free and has no fixed repayment terms.

Investment in an associate represents 49% of the issued ordinary share capital of China Pearls and Jewellery City Holdings Limited, a company engaged in investment holding which is incorporated in Hong Kong.

The Group has not recognized losses and accumulated losses amounting to HK$603,757 *(2005: Nil)* for the associate that exceed its equity interest.

17. Interest in Subsidiaries

	The Company	
	2006 HK$'000	2005 HK$'000
Unlisted shares, at cost	206,664	206,664
Due from subsidiaries	134,294	135,658
	340,958	342,322

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.

The amounts due from subsidiaries are unsecured, interest-free and have no fixed repayment terms.

Details of the Company's subsidiaries at March 31, 2006 are set out in note 38 to the financial statements.

18. Available-for-sale Financial Assets/Investment Securities

	The Group	
	2006 HK$'000	2005 HK$'000
Unlisted investments in the PRC, at cost	5,586	5,586
Impairment loss	(5,586)	(5,586)
	–	–

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.

19. 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$'000 (Restated)	Accelerated tax depreciation HK$'000 (Restated)	Tax losses HK$'000 (Restated)	Unrealized profit in inventories HK$'000	Total HK$'000 (Restated)
The Group					
At April 1, 2004					
As previously reported	14,849	1,459	(1,198)	(3,522)	11,588
Effect on adoption of HKAS 17 & HKAS-Int 21	(1,922)	(1,653)	1,198	–	(2,377)
At restated	12,927	(194)	–	(3,522)	9,211
(Credit) Charge to income for the year	(5,850)	851	(37)	(821)	(5,857)
Charge to equity for the year	2,227	–	–	–	2,227
At March 31, 2005	9,304	657	(37)	(4,343)	5,581
Charge (Credit) to income for the year	372	(548)	(552)	(1,332)	(2,060)
Charge to equity for the year	2,245	–	–	–	2,245
At March 31, 2006	**11,921**	**109**	**(589)**	**(5,675)**	**5,766**
The Company					
At April 1, 2004 and at April 1, 2005	–	–	–	–	–
Credit to income for the year	–	–	(530)	–	(530)
At March 31, 2006	**–**	**–**	**(530)**	**–**	**(530)**

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

	The Group		The Company	
	2006 HK$'000	2005 HK$'000 (Restated)	**2006 HK$'000**	2005 HK$'000
Deferred tax liabilities	**10,866**	8,954	**–**	–
Deferred tax assets	**(5,100)**	(3,373)	**(530)**	–
	5,766	5,581	**(530)**	–

19. Deferred Taxation (Continued)

At March 31, 2006, the Group has unused tax losses of HK$18,272,000 *(2005: HK$24,502,000)* available for offset against future profits. A deferred tax asset has been recognized in respect of HK$3,371,000 *(2005: HK$216,000)* of such losses. No deferred tax asset has been recognized in respect to the remaining HK$14,901,000 *(2005: HK$24,286,000)* due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At March 31, 2006, the Group also has deductible temporary differences of HK$35,336,000 *(2005: HK$28,019,000)* attributable to unrealized profit in inventories. A deferred tax asset has been recognized in respect of HK$33,027,000 *(2005: HK$25,501,000)* of such deductible temporary differences. No deferred tax asset has been recognized in respect of the remaining HK$2,309,000 *(2005: HK$2,518,000)* as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

20. Inventories

	The Group	
	2006	2005
	HK$'000	HK$'000
Raw materials	**11,838**	18,037
Work in progress	**6,154**	14,520
Finished goods	**37,878**	50,148
	55,870	82,705

The amount of inventories, included in above, carried at fair value less costs to sell is HK$46,049,000 *(2005: HK$60,778,000)*.

21. Trade and Other Receivables

	The Group	
	2006	2005
	HK$'000	HK$'000
Trade receivables	**47,330**	47,450
Deposits, prepayments and other debtors	**11,123**	7,179
	58,453	54,629

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

21. Trade and Other Receivables (Continued)

Included in trade and other receivables of the Group are trade receivables with the following ageing analysis after credit period as of the balance sheet date:

	The Group	
	2006 HK$'000	2005 HK$'000
0 – 60 days	43,479	46,595
61 – 120 days	3,851	855
	47,330	47,450

22. Financial Assets at Fair Value Through Profit or Loss/Other Investments

	The Group and the Company	
	2006 HK$'000	2005 HK$'000
Trading securities, at market value:		
Listed equity investments in Hong Kong	15,560	8,422

23. Cash and Cash Equivalents

	The Group		The Company	
	2006 HK$'000	2005 HK$'000	2006 HK$'000	2005 HK$'000
Bank balances and cash	46,289	162,367	254	3,449
Time deposits	237,856	66,748	4,126	3,974
Short-term deposits with other financial institutions	2,435	235	2,435	235
	286,580	229,350	6,815	7,658

24. Trade and Other Payables

	The Group	
	2006 HK$'000	2005 HK$'000
Trade payables	11,477	8,588
Accrued charges and other creditors	21,792	21,967
	33,269	30,555

24. Trade and Other Payables (Continued)

Included in trade and other payables of the Group are trade payables with the following ageing analysis after credit period as of the balance sheet date:

	The Group	
	2006 HK$'000	2005 HK$'000
0 – 60 days	9,461	8,270
61 – 120 days	1,268	315
> 120 days	748	3
	11,477	8,588

25. Due to Immediate Holding Company

The amount due is unsecured, interest-free and has no fixed repayment terms. 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. The directors consider the carrying amount of the balance due approximates its fair value.

26. Share Capital

	Number of shares		Share capital	
	2006 '000	2005 '000	2006 HK$'000	2005 HK$'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	909,764	827,058	90,977	82,706
Bonus issue of share *(Note)*	90,976	82,706	9,097	8,271
At balance sheet date	1,000,740	909,764	100,074	90,977

Note: Pursuant to the annual general meeting held on August 1, 2005, a bonus issue of shares on the basis of one share for every ten shares held was approved. 90,976,000 bonus shares were issued under the bonus issue and the amount HK$9,097,000 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.

27. Share Option Schemes

(a) On August 2, 2002, the Company adopted a new share option scheme (the "2002 Scheme") and terminated the one adopted on September 8, 1997 (the "1997 Scheme").

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-calibre employees and attract resources that are valuable to the Group. Under the 2002 Scheme, the board of directors of the Company may grant options to any person being an employee, officer, agent, or consultant of the Group including executive or non-executive directors of the Company and its subsidiaries, to subscribe for shares in the Company at a price to be determined by the board of directors being at least the highest of (a) the closing price of the shares on the Stock Exchange on the date of grant of the option, which must be a trading day; (b) the average closing price of the shares 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.

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 during the year ended March 31, 2006. On May 2, 2006, the Company granted 48,000,000 share options to the directors and employees of the Company. The exercise price of each share option is HK$0.253, 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.

27. Share Option Schemes (Continued)

(b) 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 unless terminated earlier by the board of directors of MSH. However, as a condition to list shares of its common stock on the American Stock Exchange ("AMEX"), MSH undertakes to terminate the Plan during the year ended March 31, 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 1,250,000 shares, which was subsequently revised to 2,500,000 shares, as adjusted by the anti-dilution 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).

On July 22, 2005, the board of directors of MSH has approved a five-for-four stock split effected in the form of a stock dividend. As a result, the share and per share data has been restated to reflect the capital structure subsequent to the five-for-four stock split, which become effective on August 5, 2005.

27. Share Option Schemes (Continued)

(b) **(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, 2006 and 2005:

	Date of grant	Exercise price per share US$	Outstanding at April 1, 2004	Exercised during the year ended March 31, 2005	Outstanding at March 31, 2005	Exercised during the year ended March 31, 2006	Outstanding at March 31, 2006
Directors	September 16, 1997	0.976	375,000	–	375,000	(375,000)	–
	March 26, 2003	0.88	312,500	–	312,500	(312,500)	–
			687,500	–	687,500	(687,500)	–
Other employees	September 16, 1997	0.976	187,500	(62,500)	125,000	(125,000)	–
			875,000	(62,500)	812,500	(812,500)	–

For stock options granted on September 16, 1997, the holders can subscribe for the shares of common stock at a subscription price of US$0.976 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$0.88 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 will expire on March 25, 2013.

All the outstanding stock options have been exercised during the year ended March 31, 2006. No options were available for future grant as of March 31, 2006 as the plan was terminated during the year.

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

28. Reserves

	Share premium HK$'000	Contributed surplus HK$'000	Accumulated profits HK$'000	Total HK$'000
The Company				
At April 1, 2004	68,209	206,459	84	274,752
Capitalization on bonus issue of shares	(8,271)	–	–	(8,271)
Profit for the year	–	–	930	930
At March 31, 2005	59,938	206,459	1,014	267,411
Capitalization on bonus issue of shares	(9,097)	–	–	(9,097)
Profit for the year	–	–	5,145	5,145
At March 31, 2006	**50,841**	**206,459**	**6,159**	**263,459**

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, 2006 amounted to HK$212,618,000 *(2005: HK$207,473,000)*, which represents the aggregate of contributed surplus of HK$206,459,000 *(2005: HK$206,459,000)* and accumulated profits of HK$6,159,000 *(2005: HK$1,014,000)*.

29. Financial Risk Management Objectives and Policies

During the normal course of the Group's business, the Group is exposed to a variety of financial risks, including foreign currency risk, credit risk and liquidity risk. The board of directors generally adopts conservative strategies on its risk management and limits the Group's exposure to these risks to a minimum. Management monitors and manages these exposures to ensure appropriate measures are implemented on a timely and effective manner. The policies on how to monitor and control these risks are set out below:

Foreign currency risk

Most of the Group's business transactions including sales and purchases are denominated in Hong Kong dollars and United States dollars, in which the Group considers there is no significant exposure to foreign exchange fluctuations as long as the Hong Kong-United States dollar exchange rate remains pegged.

Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. The Group has a credit limit policy in place and exposures to credit risk are monitored on an ongoing basis. In order to minimize credit risk, the management of the Group has established credit limits, credit approvals and other monitoring procedures to ensure appropriate actions are taken to recover overdue debts.

At the balance sheet date, the Group has a certain concentration of credit risk as 42% *(2005: 36%)* and 60% *(2005: 56%)* of the total trade receivables was due from the Group's two largest receivable balances and the five largest receivable balances respectively.

Liquidity risk

The Group continues to enjoy financing for its operations by internally generated cash flows. The Group maintained its gearing ratio at zero and the Group will have sufficient financial resources to meet its commitments and working capital requirements.

Interest rate risk

The Group has minimum exposure to interest rate risk.

30. Pledge of Assets

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

	The Group	
	2006	2005
	HK$'000	HK$'000
		(Restated)
Carrying amount of leasehold land and buildings	**93,046**	82,952
Carrying amount of investment properties	**11,200**	10,400
	104,246	93,352

31. Capital Commitment

	The Group	
	2006	2005
	HK$'000	HK$'000
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	**1,312**	3,568

As at March 31, 2006, the Group had capital commitments of HK$76,440,000 in relation of capital injection to an associate for the development of the Zhuji Jewellery City Project.

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

32. Operating Lease Arrangements

The Group as lessee

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

	The Group	
	2006	2005
	HK$'000	HK$'000
Operating leases which expire:		
Within one year	**581**	1,773
In the second to fifth year inclusive	**228**	431
	809	2,204

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.

32. Operating Lease Arrangements (Continued)

The Group as lessor

Property rental income earned during the year was HK$3,362,000 *(2005: HK$4,646,000)*. 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:

	The Group	
	2006	2005
	HK$'000	HK$'000
Within one year	**3,474**	3,282
In the second to fifth year inclusive	**3,676**	3,659
Over five years	**204**	509
	7,354	7,450

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

33. 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. No banking facilities have been utilized by the subsidiaries at the balance sheet date.

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

34. 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 consolidated 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.

35. Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in the financial statements, the Group entered into the following material related party transactions, which were carried out in the ordinary course of the Group's business.

Related party relationship	Nature of transaction	2006 HK$'000	2005 HK$'000
Key management personnel including directors as disclosed in note 8	Salaries and other short-term benefits	**12,482**	12,221
An entity which is significantly influenced by key management personnels of the Company	Professional fees paid	**493**	237
	Reimbursement for salaries of staff who have provided services to the entity	**582**	554
	Sale of goods	**313**	636
	Rental expenses paid	**152**	–
	Disposal of a motor vehicle at net book value	**914**	–

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

36. 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$901,000 *(2005: HK$981,000)* represents contributions payable to these schemes by the Group in respect of the current accounting period.

37. Comparative Figures

As further explained in note 2 to the financial statements, due to the adoption of HKFRSs during the year, the accounting treatment and the presentation of certain items and balances in the financial statements have been revised to comply with the new requirements. Accordingly, certain prior period adjustments and opening balance adjustments have been made and related comparative amounts have been restated.

38. Particulars of Subsidiaries

Particulars of the Company's subsidiaries at March 31, 2006 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
Man Sang China Investment Limited	Hong Kong	Ordinary shares HK$1	100%	Inactive
Cyber Bizport Limited	Hong Kong	Ordinary shares HK$10,000,000	100%	Investment holding
Damei Pearls Jewellery Goods (Shenzhen) Co., Ltd.	PRC	Registered capital HK$6,000,000	100%	Purchasing and processing of pearls
Excel Access Limited	Hong Kong	Ordinary shares HK$5,000	100%	Property investment
Hong Kong Man Sang Investments Limited	Hong Kong	Ordinary shares HK$5,000	100%	Property 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

38. 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
Smartest Man Holdings Limited	British Virgin Islands/ Hong Kong	Ordinary shares US$1	100%	Investment holding
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

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 enterprises.