



# Man Sang International Limited

(incorporated in Bermuda with limited liability)

Stock Code : 0938



INTERIM REPORT


2007

# *The Ultimate Name in Pearls*

Man Sang International Limited (the “Company”) and its subsidiaries (the “Group”) are principally engaged in the purchasing, assembling, merchandising and wholesale distribution of pearls, pearl and non-pearl jewellery products. The Group is one of the world’s largest pearl merchants and purchasers and processors of saltwater pearls.

The shares of the Company have been listed on the main board of Stock Exchange of Hong Kong Limited since 1997 under the stock code of 0938. The holding company of the Company, Man Sang Holdings, Inc., is a company incorporated in Nevada State of the United States of America with its shares listed on the American Stock Exchange under the symbol of “MHJ”.

Pearl and non-pearl products processing, manufacturing and assembling are conducted at the Group’s self-own facilities in the Man Sang Industrial City in Shenzhen, the People’s Republic of China (the “PRC”). There are 27 blocks of buildings in total encompassing a total gross floor area of approximately 813,000 square feet.

With its experienced in pearl business accumulated over the years, in 2006 the Group joined by six major pearls and jewellery players in the PRC developing and managing a large-scale, multi-purpose and modern international pearl and jewellery centre i.e China Pearls and Jewellery City in Zhuji of Zhejiang Province, the PRC. The centre will be the world’s largest pearl and jewellery trading platform for trading of pearls and jewellery, the processing, manufacturing, research and development of jewellery products while at the same time providing related services including logistics, electronic, commerce, exhibition and convention, accommodation, catering and entertainment. 

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# Corporate Information

## BOARD OF DIRECTORS

### Executive Directors

Mr. Cheng Chung Hing (Chairman)  
Mr. Cheng Tai Po (Vice 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

## QUALIFIED ACCOUNTANT & COMPANY SECRETARY

Mr. Pak Wai Keung, Martin

## AUDIT COMMITTEE

Mr. Lee Kang Bor, Thomas (Chairman)  
Mr. Kiu Wai Ming, Kenneth  
Mr. Lau Chi Wah, Alex

## REMUNERATION COMMITTEE

Mr. Kiu Wai Ming, Kenneth (Chairman)  
Mr. Lee Kang Bor, Thomas  
Mr. Lau Chi Wah, Alex  
Mr. Cheng Chung Hing  
Mr. Cheng Tai Po

## AUDITORS

Grant Thornton

## LEGAL ADVISERS

*As to Hong Kong and the US law:*  
Baker & McKenzie

*As to Bermuda law:*  
Conyers Dill & Pearman

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited  
Industrial and Commercial Bank of China (Asia) Limited  
Bank of China (Hong Kong) Limited

## PRINCIPAL SHARE REGISTRAR

### Butterfield Fund Services (Bermuda) Limited

Rosebank Centre  
14 Bermudiana Road  
Pembroke  
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

### Tricor Secretaries Limited

26th Floor, Tesbury Centre  
Wanchai, Hong Kong

## LISTING INFORMATION

The Company's ordinary shares are listed on The Stock Exchange of Hong Kong Limited (Stock Code: 0938)

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

## PRINCIPAL PLACE OF BUSINESS

21st Floor, Railway Plaza  
39 Chatham Road South  
Kowloon  
Hong Kong



# Independent Review Report

Certified Public Accountants  
Member of Grant Thornton International

Grant Thornton   
均富會計師行

To the board of directors of  
**Man Sang International Limited**  
(incorporated in Bermuda with limited liability)

## Introduction

We have reviewed the interim financial report set out on pages 4 to 19 which comprises the condensed consolidated balance sheet of Man Sang International Limited as of September 30, 2007 and the related condensed consolidated income statement, condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and other explanatory notes. The Rules Governing the Listing of Securities on the Main Board of The Stock Exchange of Hong Kong Limited requires the preparation of a report on interim financial information to be in compliance with relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34.

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

## Scope of review

We conducted our review in accordance with Hong Kong Standard on Review Engagement 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial report consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34.

**Grant Thornton**  
Certified Public Accountants  
13/F., Gloucester Tower  
The Landmark  
15 Queen's Road Central  
Hong Kong

November 13, 2007



## Condensed Consolidated Income Statement

For the six months ended September 30

	Notes	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
<b>Turnover</b>	3	210,059	193,332
Cost of sales		(136,836)	(133,675)
<b>Gross profit</b>		73,223	59,657
Investment income		9,334	4,077
Net unrealized gain on financial assets at fair value through profit or loss		1,232	172
Other operating income		2,806	2,396
Selling expenses		(5,239)	(5,347)
Administrative expenses		(43,531)	(33,744)
<b>Profit before taxation</b>	4	37,825	27,211
Taxation	5	(4,421)	(2,487)
<b>Net profit for the period</b>		33,404	24,724
Loss attributable to minority interests		4,633	—
<b>Profit attributable to equity shareholders</b>		38,037	24,724
<b>Earnings per share</b>	7		
— Basic		3.52 cents	2.47 cents
— Diluted		3.37 cents	2.45 cents



## Condensed Consolidated Balance Sheet

	Notes	September 30, 2007 HK\$'000 (unaudited)	March 31, 2007 HK\$'000 (audited)
<b>Non-current assets</b>			
Investment properties		96,820	96,820
Property, plant and equipment	8	575,270	109,104
Prepaid land lease payments		30,884	31,266
Interest in an associate	9	—	86,587
Goodwill	10 & 17	47,630	—
Deferred tax assets		2,809	4,071
		753,413	327,848
<b>Current assets</b>			
Inventories		31,260	46,195
Trade and other receivables	11	198,513	69,237
Financial assets at fair value through profit or loss		6,031	8,350
Tax receivable		411	1,620
Bank balances and cash		556,404	296,426
		792,619	421,828
<b>Current liabilities</b>			
Trade and other payables	12	295,945	39,872
Taxation		3,655	154
Bank borrowings (secured) — current portion	13	20,738	—
		320,338	40,026
<b>Net current assets</b>		472,281	381,802
<b>Total assets less current liabilities</b>		1,225,694	709,650
<b>Non-current liabilities</b>			
Due to an immediate holding company		3,925	17,916
Deferred tax liabilities		43,480	12,690
Bank borrowings (secured)	13	165,904	—
		213,309	30,606
<b>Net assets</b>		1,012,385	679,044
<b>Capital and reserves</b>			
Share capital	14	120,374	100,374
Reserves		873,321	578,670
		993,695	679,044
<b>Minority interests</b>		18,690	—
<b>Total equity</b>		1,012,385	679,044



## Condensed Consolidated Statement of Changes in Equity

For the six months ended September 30

	Share capital HK\$'000	Share premium HK\$'000	Other non- distributable reserve HK\$'000 <i>(Note a)</i>	Share option reserve HK\$'000	Other property revaluation reserve HK\$'000	Translation reserve HK\$'000	Retained profits HK\$'000	Total HK\$'000
<b>Balance at April 1, 2006 (audited)</b>	<b>100,074</b>	<b>50,841</b>	<b>1,801</b>	<b>—</b>	<b>33,751</b>	<b>6,265</b>	<b>415,693</b>	<b>608,425</b>
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	760	—	760
Net income recognized directly in equity	—	—	—	—	—	760	—	760
Net profit for the period	—	—	—	—	—	—	24,724	24,724
Release on depreciation of leasehold land and buildings	—	—	—	—	(530)	—	530	—
Total recognized income and expense	—	—	—	—	(530)	760	25,254	25,484
Share based payments	—	—	—	4,502	—	—	—	4,502
<b>Balance at September 30, 2006 (unaudited)</b>	<b>100,074</b>	<b>50,841</b>	<b>1,801</b>	<b>4,502</b>	<b>33,221</b>	<b>7,025</b>	<b>440,947</b>	<b>638,411</b>





# Condensed Consolidated Statement of Changes in Equity

For the six months ended September 30

	Share capital	Share premium	Other non-distributable reserve	Share option reserve	Other property revaluation reserve	Translation reserve	General Reserve	Retained profits	Total	Minority interest	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
			(Note a)				(Note b)				
<b>Balance at April 1, 2007 (audited)</b>	<b>100,374</b>	<b>51,517</b>	<b>1,801</b>	<b>4,378</b>	<b>36,467</b>	<b>7,080</b>	<b>—</b>	<b>477,427</b>	<b>679,044</b>	<b>—</b>	<b>679,044</b>
Revaluation of properties	—	—	—	—	47,092	—	—	—	47,092	—	47,092
Deferred tax liability arising on revaluation of properties	—	—	—	—	(15,540)	—	—	—	(15,540)	—	(15,540)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	5,932	—	—	5,932	—	5,932
Share of accumulated losses of the associate upon acquisition of subsidiaries	—	—	—	—	—	—	—	(10,935)	(10,935)	—	(10,935)
Net income recognized directly in equity	—	—	—	—	31,552	5,932	—	(10,935)	26,549	—	26,549
Net profit for the period	—	—	—	—	—	—	—	38,037	38,037	(4,633)	33,404
Release on depreciation of leasehold land and buildings	—	—	—	—	(442)	—	—	442	—	—	—
Total recognized income and expenses for the period	—	—	—	—	31,110	5,932	—	27,544	64,586	(4,633)	59,953
Acquisition of subsidiaries	—	—	—	—	—	—	—	—	—	23,323	23,323
Share based payments	—	—	—	860	—	—	—	—	860	—	860
Issue of new shares	20,000	265,317	—	—	—	—	—	—	285,317	—	285,317
Dividends paid (Note b)	—	—	—	—	—	—	(36,112)	—	(36,112)	—	(36,112)
<b>Balance at September 30, 2007 (unaudited)</b>	<b>120,374</b>	<b>316,834</b>	<b>1,801</b>	<b>5,238</b>	<b>67,577</b>	<b>13,012</b>	<b>(36,112)</b>	<b>504,971</b>	<b>993,695</b>	<b>18,690</b>	<b>1,012,385</b>

Note:

- (a) Other non-distributable reserves are arising from the transactions under corporation reorganization in 1997.
- (b) General reserve represents the dividends paid out of the contributed surplus by the Company.



## Condensed Consolidated Cash Flow Statement

For the six months ended September 30

	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Net cash from operating activities	48,036	9,482
Net cash used in investing activities	(62,264)	(82,018)
Net cash from financing activities	281,856	8,389
Net increase (decrease) in cash and cash equivalents	267,628	(64,147)
Cash and cash equivalents at beginning of the period	296,426	286,580
Effect of foreign exchange rate changes	(7,650)	664
Cash and cash equivalents at end of the period, represented by bank balances and cash	556,404	223,097



# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 1. BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") and the Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

## 2. SIGNIFICANT ACCOUNTING POLICIES

The unaudited condensed consolidated interim financial statements are prepared in compliance with the Hong Kong Financial Reporting Standards ("HKFRSs"), which includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations ("HKAS-Int") issued by the HKICPA and accounting principles generally accepted in Hong Kong.

The accounting policies adopted are consistent with those followed in the preparation of the Group's annual financial statements for the year ended March 31, 2007.

The Group has adopted the following new/revised HKFRSs, which also included HKASs and Interpretations, that are effective for accounting periods commencing on or after January 1, 2007:

HKAS 1 (Amendment)	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK (IFRIC) — Int 8	Scope of HKFRS 2
HK (IFRIC) — Int 10	Interim Financial Reporting and Impairment

The adoption of these new/revised HKFRSs had no material effect on the preparation and presentation of the results and financial position of the Group for the current or prior accounting periods.

The Group has not applied any new standards or interpretations that are not yet effective for the current accounting period. The Group has already commenced an assessment of the impact of these new standards and interpretations and considers that they would not significantly impact on its results of operations and financial position.

## 3. TURNOVER AND SEGMENT INFORMATION

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 period.

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

Pearls and jewellery	—	Purchasing, processing, assembling, merchandising and wholesale distribution of pearls and jewellery products
Property investment	—	Leasing of properties
Property development	—	Development and sales of properties



## Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

### 3. TURNOVER AND SEGMENT INFORMATION (Continued)

Segment information about these businesses is presented below:

Six months ended September 30, 2007 (unaudited)

	Pearls and jewellery HK\$'000	Property Investment HK\$'000	Property Development HK\$'000	Consolidated HK\$'000
<b>Revenue</b>				
External sales or rentals	210,059	2,642	—	212,701
<b>Result</b>				
Segment result	40,831	520	(11,295)	30,056
Unallocated other operating income				10,725
Unallocated corporate expense				(2,956)
<b>Profit before taxation</b>				<b>37,825</b>

Six months ended September 30, 2006 (unaudited)

	Pearls and jewellery HK\$'000	Property Investment HK\$'000	Property Development HK\$'000	Consolidated HK\$'000
<b>Revenue</b>				
External sales or rentals	193,332	1,857	—	195,189
<b>Result</b>				
Segment result	28,980	(523)	—	28,457
Unallocated other operating income				4,788
Unallocated corporate expense				(6,034)
<b>Profit before taxation</b>				<b>27,211</b>

### 4. PROFIT BEFORE TAXATION

	For the six months ended September 30,	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Profit before taxation has been arrived at after charging:		
Depreciation and amortization	4,915	3,654
Staff costs, including directors emoluments	21,619	20,345



# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 5. TAXATION

	For the six months ended September 30,	
	2007 HK\$'000 (unaudited)	2006 HK\$'000 (unaudited)
Current tax:		
— Hong Kong	4,084	2,518
Deferred tax:		
— Current period	337	(31)
	4,421	2,487

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended September 30, 2007 and September 30, 2006, respectively.

## 6. DIVIDEND

The directors do not recommend the payment of an interim dividend (six months ended September 30, 2006: Nil) and propose that the profit for the period be retained. No dividend was paid during the period.

## 7. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit attributable to equity shareholders of HK\$38,037,000 (six months ended September 30, 2006: HK\$24,724,000) and on 1,079,564,000 (six months ended September 30, 2006: 1,000,740,000) shares in issue during the period.

Diluted earnings per share for six months ended September 30, 2007 is calculated based on the profit attributable to equity shareholders of HK\$38,037,000 (six months ended September 30, 2006: HK\$24,724,000) and on the adjusted weighted average number of 1,127,274,000 (six months ended September 30, 2006: 1,009,983,000) shares which is the weighted average number of shares in issue during the period plus the weighted average number of 47,710,000 (six months ended September 30, 2006: 9,243,000) shares deemed to be issued at no consideration if all outstanding options had been exercised.

## 8. PROPERTY, PLANT AND EQUIPMENT

Included in property, plant and equipment of the Group is construction-in-progress of HK\$463,384,000 (March 31, 2007: Nil) for the development of China Pearls and Jewellery City Project. ("CP&J Project")



## Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

### 9. INTEREST IN AN ASSOCIATE

	September 30, 2007 HK\$'000 (unaudited)	March 31, 2007 HK\$'000 (audited)
Unlisted shares, at cost	—	—
Due from an associate	—	86,587
	—	86,587

The amount due from an associate was unsecured, interest-free and had no fixed repayment terms. The directors consider the carrying amount of the balance due approximates its fair value at the balance sheet date.

As at March 31, 2007, the Group had 49% equity interest (representing 49 ordinary shares of HK\$1 each) of China Pearls and Jewellery City Holdings Limited ("CP&J City"), a company engaged in investment holding for the development of the China Pearls and Jewellery City, which is incorporated in Hong Kong.

The associate became a subsidiary of the Company upon the acquisition by the Group of an additional 6% equity interest in the associate on April 12, 2007. The details are set out in note 17 to the unaudited condensed consolidated interim financial statements.

The unaudited financial information of the associate is summarized as follows:

	March 31, 2007 HK\$'000
Assets	404,225
Liabilities	(418,890)
Equity	(14,665)
	For the six months ended September 30, 2006 HK\$'000
Turnover	1,508
Net loss	(3,246)
Net loss attributable to the Group (Note)	(1,591)

Note: Net loss attributable to the Group for the six months ended September 30, 2006 of HK\$1,591,000 had not been recognized for the associate, as it exceeds the Group's equity interest in the associate. At March 31, 2007, the Group has accumulated unrecognized losses amounting to HK\$10,344,000.



# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 10. GOODWILL

	For the six months ended September 30, 2007 HK\$'000 (unaudited)
Arising from acquisition of subsidiaries (Note 17)	47,630
At September 30, 2007	47,630

Goodwill acquired in a business combination is allocated to cash generating units ("CGUs") that are expected to benefit from that business combination. The management considers each subsidiary represents a separate CGU for the purpose of goodwill impairment testing. At the balance sheet date, the carrying amount of goodwill mainly represents goodwill arising from the acquisition of CP&J City.

The directors of the Company consider no impairment loss needs to be recognized at September 30, 2007.

## 11. 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\$92,970,000 (March 31, 2007: HK\$56,921,000) and their ageing analysis after credit period is as follows:

	September 30, 2007 HK\$'000 (unaudited)	March 31, 2007 HK\$'000 (audited)
0-60 days	87,415	55,927
61-120 days	5,555	994
	92,970	56,921



## Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

### 12. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$15,923,000 (March 31, 2007: HK\$19,776,000) and their ageing analysis after credit period is as follows:

	September 30, 2007 HK\$'000 (unaudited)	March 31, 2007 HK\$'000 (audited)
0-60 days	15,157	19,309
61-120 days	766	418
>120 days	—	49
	<b>15,923</b>	<b>19,776</b>

### 13. BANK BORROWINGS

	September 30, 2007 HK\$'000 (unaudited)
Secured bank loans	186,642

	September 30, 2007 HK\$'000 (unaudited)
The maturity of the above borrowings is as follows:	
Within 1 year	20,738
More than 1 year but not exceeding 2 years	72,583
More than 2 years but not exceeding 5 years	93,321
	<b>186,642</b>
Deduct: Amount due within 1 year shown under current liabilities	20,738
Amount due after 1 year	<b>165,904</b>

The carrying amount of bank borrowings approximates its fair values. The bank borrowings are carried at interest rate of approximately 8% per annum. At the balance sheet date, the Group has pledged the carrying amount of leasehold land amounting to HK\$230,199,000 (March 31, 2007: Nil) to banks to secure the bank borrowings.





# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 14. SHARE CAPITAL

	Number of Shares '000	Amount (unaudited) HK\$'000
<b>Authorized:</b>		
Shares of HK\$0.10 each	1,500,000	150,000
Increase in authorized share capital ( <i>Note a</i> )	3,500,000	350,000
	5,000,000	500,000
<b>Issued and fully paid:</b>		
At April 1, 2007	1,003,740	100,374
Issue of shares on placement ( <i>Note b</i> )	200,000	20,000
At September 30, 2007	1,203,740	120,374

*Note:*

- (a) Pursuant to a resolution passed at the annual general meeting of the Company on August 1 2007, the authorized share capital of the Company increased to HK\$500,000,000 by the creation of an additional 3,500,000,000 shares of HK\$0.10 each of the Company.
- (b) On July 10, 2007, the Group allotted and issued 200,000,000 ordinary shares of HK\$0.10 each at the price of HK\$1.48 as a result of placement to not less than 6 places.

All the shares which were issued during the period rank pari passu with the then existing shares in all respects.



# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 15. SHARE-BASED PAYMENTS

No options have been granted under the 2002 Scheme during the six months ended September 30, 2007. The weighted average closing price of the Company's shares immediately before the date on which share options were exercised during the period was HK\$1.3.

The following table shows details of the Company's share options held by directors and employees and movement in such holdings during the period.

Date of grant	Exercisable period	Vesting period	Exercise Price HK\$	Outstanding number of share options at April 1 and September 30, 2007
<b>Directors</b>				
May 2, 2006	May 2, 2006 to May 1, 2012	Note	0.253	12,000,000
<b>Employees</b>				
May 2, 2006	May 2, 2006 to May 1, 2012	Note	0.253	23,000,000
September 18, 2006	September 18, 2006 to September 17, 2011	Note	0.233	20,000,000
March 13, 2007	January 1, 2008, to March 12, 2012	March 13, 2007 to December 31, 2007	0.500	5,000,000
				48,000,000
				60,000,000
Weighted average exercise price				HK\$0.267
Options vested September 30, 2007				55,000,000
Weighted average exercise price				HK\$0.246
Weighted average remaining contractual life				4.37 years

Note: The share options were fully vested at the date of grant.



# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 15. SHARE-BASED PAYMENTS (Continued)

The inputs into Black-Scholes option pricing model were as follow:

Date of grant	May 2, 2006	September 18, 2006	March 13, 2007
Number of share options granted	48,000,000	20,000,000	5,000,000
Weighted average share price on the date of grant	HK\$0.250	HK\$0.233	HK\$0.500
Exercise price	HK\$0.253	HK\$0.233	HK\$0.500
Expected volatility	21.83%	35.25%	60.91%
Expected life	5 years	5 years	5 years
Risk-free interest rate	4.660%	4.025%	4.030%
Expected dividend yield	0.000%	0.000%	0.000%
Estimated fair value of the granted options expensed through income statement	HK\$3,465,000	HK\$1,759,000	HK\$953,000

The Group recognized total expense of HK\$860,000 for the six months ended September 30, 2007 (for the six months ended September 30, 2006: HK\$4,502,000) in relation to share options granted by the Company.

## 16. 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	For the six months ended September 30,	
		2007 HK\$'000	2006 HK\$'000
Key management personnel	Salaries and other short-term benefits	8,327	6,446
An entity which is significantly influenced by key management personnels of the Company	Reimbursement for salaries of staff who have provided services to the entity	42	84
	Sale of goods	85	395
	Rental charges paid	114	95



# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 17 ACQUISITION OF SUBSIDIARIES

In March 2007, the Group entered into an agreement to acquire an additional 6% of the total issued share capital of the CP&J City, which was then an associate, and the assignment of the loan, for a consideration of HK\$60,000,000. Upon completion of the acquisition on April 12, 2007, the Group holds 55% equity interest in CP&J City, which then became a subsidiary of the Company. This transaction has been accounted for using the acquisition method of accounting.

The aggregate net assets acquired in the transaction, and the goodwill arising on acquisition, are as follows:

	CP&J City's carrying amount before combination HK\$'000	Fair value adjustments HK\$'000	Fair value HK\$'000
Net assets acquired:			
Cash and cash equivalents	135,396	—	135,396
Property, plant and equipment	201,277	96,106	297,383
Trade and other receivables	55,006	—	55,006
Trade and other payables	(269,236)	—	(269,236)
Bank borrowings	(140,000)	—	(140,000)
Net deferred tax liabilities	—	(31,715)	(31,715)
	<u>(17,557)</u>	<u>64,391</u>	46,834
Minority interests			(44,024)
Loan assigned			10,560
Goodwill arising on acquisition			<u>47,630</u>
Total consideration			<u>61,000</u>
Satisfied by:			
Cash			50,440
Loan assigned			<u>10,560</u>
Totals			61,000
Net inflow of cash and cash equivalents in respect of the acquisition of subsidiaries, representing bank balances and cash acquired			<u>84,956</u>

The above goodwill is attributable to determining the controlling rights and executive power over CP&J City for the development of China Pearls and Jewellery City.

No turnover was contributed by the subsidiaries acquired during the period and a loss of approximately HK\$10 million was contributed to the Group's profit before taxation for the period between the date of acquisition and the balance sheet date.

If the acquisition had been completed on 1 April 2007, no impact noted for the total group revenue for the period whereas the profit for the period would have been decreased to approximately HK\$32.2 million. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 April 2007, nor is it intended to be a projection of future results.



# Notes to the Condensed Interim Financial Statements

For the six months ended September 30, 2007

## 18. CAPITAL COMMITMENT

	September 30, 2007 HK\$'000 (unaudited)	March 31, 2007 HK\$'000 (audited)
Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the financial statements	237,146	—

## 19. POST BALANCE SHEET EVENT

Subsequent to September 30, 2007, the Company entered into a provisional sales and purchase agreement on October 25, 2007 with a third party for disposing of an investment property amounting to HK\$25 million. As such, the transaction is scheduled to be completed on or before December 28, 2007.



# Management Discussion And Analysis

## DIVIDEND

The Board of Directors does not recommend the payment of an interim dividend for the six months ended September 30, 2007 (the six months ended September 30, 2006: Nil).

## BUSINESS REVIEW

For the six months ended September 30, 2007, the turnover of the Group increased by 8.7% to HK\$210 million as compared to the same period last year. The increase in turnover was mainly due to an increase in sales of assembled pearl and non-pearl jewellery. Profit attributable to equity shareholders for the period showed an increase from HK\$24.7 million to HK\$38 million, representing an increase of 53.8% when compared to the same period last year. The increase in the profit attributable to equity shareholders was mainly attributable to the improvement in the production efficiency through an enhanced management, successful sales strategies and cost control measures, in particular the increase of the sales of pearls and jewellery products, and investment income from effective treasury arrangement as well as successful receivables collection from the customers under our management's closely monitoring.

During the period under review, the Group continued participating actively in various international and local pearl and jewellery shows including Hong Kong Jewellery & Watch Fair, Baselworld and the JCK LasVegas Show, etc. The Group noted a steady growth in demand for pearls and jewellery from international and local buyers. The United States market and European market are continuously growing during the period under review. The successful in selling and marketing our jewellery products in the United States and Europe has made a contribution to the Group. Many of the Group's customers in the United States and Europe are among the largest jewellery industry players in their respective markets. Their continuous placing of orders with the Group would be a driving force in boosting our sales in the future. On the other hand, our key performer on the pearl side continued to be South Sea pearl market. While the pearls accounted for 46.1% of our total turnover, the assembled pearl and non-pearl jewellery accounted for 53.9% of our total turnover. Turnover of assembled pearl and jewellery products had shown an increase in performance indicating that assembled pearl and jewellery products have potential in attracting those customers with a more affordable price range segment. The Group will consistently adopt the sales strategies to expand our customer network and implement an effective cost control on production.

### Gross Profit

Gross profit margin had slightly increased from 30.9% to 34.9% when compared with the same period last year. It was mainly due to the improvement in the production efficiency in the light of the enhanced management and cost control measures.

### Operating Costs and Expenses

Selling and administrative expenses increased by 24.8% as compared with the same period last year. The increase in such expenses was mainly due to the inclusion of China Pearls and Jewellery City Holdings Limited ("CP&J City") corresponding to the completion of the acquisition of CP&J City on April 12, 2007, the Group had 55% equity interest in CP&J City, which became a subsidiary of the Company.

### Basic earnings per share

Basic earnings per share increased from HK2.47 cents during the six months ended September 30, 2006 to HK3.52 cents during the six months ended September 30, 2007.



# Management Discussion And Analysis (Continued)

## LIQUIDITY AND FINANCIAL RESOURCES

### Liquidity

At September 30, 2007, the Group had a working capital of HK\$472.3 million, which included a cash balance of HK\$556.4 million, compared to the working capital of HK\$381.8 million, which included a cash balance of HK\$296.4 million at March 31, 2007. The increase in working capital was mainly due to the increase in cash balance by cash inflow from operating activities and placing the shares to independent investors.

The Group had available credit facilities of HK\$351.6 million in total with various banks at September 30, 2007. Such banking facilities include bank loan, letter of credit arrangements, import loans, overdrafts and other facilities. All such banking facilities bear interest at floating rates generally offered by banks in Hong Kong and the PRC, which are subject to periodic review. At September 30, 2007, we had utilized HK\$186.6 million of these bank loans. At the balance sheet date, the Group has pledged the carrying amount of leasehold land and buildings amounting to HK\$292.5 million (March 31, 2007: HK\$63.1 million) and the carrying amount of investment properties amounting to HK\$11.2 million (March 31, 2007: HK\$ 11.2 million) to banks to secure the bank borrowings.

### Capital Structure

At September 30, 2007, the Group's total shareholders' funds amounted to HK\$993.7 million, compared with HK\$679.0 million at March 31, 2007. The Group's gearing ratio was 0.2 at September 30, 2007 (nil at March 31, 2007). The gearing ratio is computed by dividing total debts over capital and reserves.

For the period ended September 30, 2007, most of the Group's transactions were denominated in either US dollars or Hong Kong dollars. Since the Hong Kong dollar remained "pegged" to the US dollar at a consistent rate, in this respect, the Group was not exposed to any significant foreign exchange risk, and as a result of which, the Group has not adopted any hedging measures.

## PROSPECTS

### Pearls and Jewellery Business

Defaults in subprime mortgages triggered a global aversion to risk. In the face of economic uncertainty, our customers in the United States appeared to slow-down their purchasing decisions. As a result, the growth of net sales in the United States market slowed down in the second quarter compared with the first quarter. However, we do not expect this slowdown to spread to other regions. In the tradeshow of September 2007 held in Hong Kong, we received a positive response from customers of different regions.

We expect demand for luxury products to continue to increase along with continued improvement in global economic conditions. These factors should benefit our core business segment of South Sea pearls and assembled jewellery products.

### China Pearls and Jewellery City project

During the six months ended September 30, 2007, we acquired additional interests in the China Pearls and Jewellery City Project ("CP&J project") located in Zhuji, Zhejiang province, the PRC. Before this acquisition, we owned 49% of the CP&J project. After the acquisition, we owned 55% of the CP&J project. We expect the CP&J project, which is a major trading platform for pearls and jewellery in the PRC, to broaden our customer base.

We expect that the phase one of the CP&J project will be completed in 2008 as planned. The tenants of approximately 600 units which previously occupied the existing old jewellery market in Zhuji have agreed to move into our newly-built Zhuji's jewellery city ("Jewellery City"), and will occupy approximately 30% of the total units of the Jewellery City. We expect it will help push forward the attraction of our market.

We expect our property development segment will continue to be one of our core businesses and will contribute sustainable growth.



## Other Information

### SHARE OPTION

As at September 30, 2007, details of the share options granted to the directors of the Company and eligible employees under the share option scheme adopted by the Company on August 2, 2002 are as follows:

Grantees	Date of grant	Exercisable period	Vesting period	Exercise price HK\$	No. of share options				Balance at September 30, 2007	Notes
					Balance at April 1, 2007	Granted during the period	Exercised during the period	Lapsed during the period		
<b>Directors</b>										
Mr. Cheng Chung Hing	May 2, 2006	May 2, 2006 to May 1, 2012	Nil	0.253	1,000,000	—	—	—	1,000,000	(1), (2)
Mr. Cheng Tai Po	May 2, 2006	May 2, 2006 to May 1, 2012	Nil	0.253	1,000,000	—	—	—	1,000,000	(1), (2)
Ms. Yan Sau Man, Amy	May 2, 2006	May 2, 2006 to May 1, 2012	Nil	0.253	10,000,000	—	—	—	10,000,000	(1), (2)
					<u>12,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>12,000,000</u>	
<b>Other Employees</b>										
	May 2, 2006	May 2, 2006 to May 1, 2012	Nil	0.253	23,000,000	—	—	—	23,000,000	(1), (2)
	September 18, 2006	September 18, 2006 to September 17, 2011	Nil	0.233	20,000,000	—	—	—	20,000,000	(1), (2)
	March 13, 2007	January 1, 2008 to March 12, 2012	March 13, 2007 to December 31, 2007	0.500	5,000,000	—	—	—	5,000,000	(1), (2)
					<u>48,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>48,000,000</u>	
					<u>60,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>60,000,000</u>	

*Notes:*

- (1) These share options represent personal interest held as beneficial owner.
- (2) The Company recorded the fair value of these share options as staff cost in the income statement. The Company will record the nominal value of the shares which is HK\$0.10 per share issued pursuant to the exercise price of the share options as additional share capital and the Company will record the excess of the exercise price of the share options over nominal value of the shares in its share premium account. Any share options which have lapsed or been cancelled will be deducted from the balance of the share options.





## Other Information (Continued)

### DIRECTORS' INTERESTS IN SECURITIES

As at September 30, 2007, the interests of each Director and chief executive of the Company in the equity interest or debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which (a) were required to be notified to the Company and the Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange ("Model Code") to be notified to the Company and the Stock Exchange were as follows:

#### (a) Long positions in ordinary shares of the Company

Name of director	Capacity	Number of ordinary shares of HK\$0.10 each held			Approximate shareholding Percentage
		Direct interest	Deemed interest (Note 3)	Total interest	
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	114,831,273	494,406,000	609,237,273	50.61%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	76,086,180	494,406,000	570,492,180	47.39%

Note 3: These shares are owned by Man Sang International (B.V.I.) Limited ("MSBVI"), a British Virgin Islands ("BVI") incorporated company which in turn is wholly-owned by Man Sang Holdings, Inc. ("MSH"), a company incorporated in the State of Nevada, the United States of America. Cafoong Limited ("Cafoong"), a BVI incorporated company and eleven of its wholly-owned subsidiaries which are also BVI incorporated companies together own 3,437,501 or 53.86% shares of common stocks of MSHI. 100,000 of 3,437,501 shares of common stocks are Series A Preferred Stocks representing 3,191,225 shares of common stocks voting rights. Total voting rights by Cafoong and the said eleven subsidiaries in MSH is 69.24%. Mr. Cheng Chung Hing and Mr. Cheng Tai Po each own 60% and 40% of the issued share capital of Cafoong.

#### (b) Long positions in underlying shares of the Company

The interest of the directors and chief executive in the share options of the Company are separately disclosed in the section "Share Option"



## Other Information (Continued)

### DIRECTORS' INTERESTS IN SECURITIES (CONTINUED)

#### (c) Long positions in common stock of an associated corporation

Name of Director	Name of associated corporation	Capacity	Number of shares of common stocks (Note 4)	Approximate shareholding percentage
Mr. Cheng Chung Hing	MSH	Interest of a controlled corporation	3,437,501	53.86%
Mr. Cheng Tai Po	MSH	Interest of a controlled corporation	3,437,501	53.86%

Note 4: They are deemed interests of Mr. Cheng Chung Hing and Mr. Cheng Tai Po and are currently held by Cafoong and eleven of its wholly-owned subsidiaries. 100,000 of 3,437,501 shares of common stocks are Series A Preferred Stocks representing 3,191,225 shares of common stocks voting rights. Total voting rights by Cafoong and eleven of its wholly-owned subsidiaries in MSH is 69.24%. Mr. Cheng Chung Hing and Mr. Cheng Tai Po each own 60% and 40% of the issued share capital of Cafoong.

#### (d) Long positions in underlying common stocks of an associated corporation

There are no long positions in underlying common stocks of an associated corporation that need to be disclosed under this heading.

Save as disclosed above, none of the directors and the chief executives of the Company had any interest in the share capital of the Company or any associated corporations (within the meaning of the SFO) which (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Director has taken or deemed to have under such provisions of the SFO); or (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.



## Other Information (Continued)

### SUBSTANTIAL SHAREHOLDERS

At September 30, 2007, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO were as follow:

Name of Shareholder	Capacity	Nature of Interest	Number of shares	Percentage of issued share capital
MSH	Interest of controlled corporation	Corporate interest (Note 5)	494,406,000	41.07%
MSBVI	Beneficial owner	Beneficial interest	494,406,000	41.07%
Mr. Cheng Chung Hing	Beneficial owner	Beneficial interest	114,831,273	23.23%
Mr. Cheng Tai Po	Beneficial owner	Beneficial interest	76,086,180	6.32%

Note 5: MSH is deemed to be interested in 494,406,000 shares of the Company held by MSBVI by virtue of its 100% interest therein.

Save as disclosed above, as at September 30, 2007, the Company has not been notified of any person or entity had an interest or a short position in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's listed securities during the six months ended September 30, 2007.

### SPECIFIC PERFORMANCE OBLIGATIONS ON CONTROLLING SHAREHOLDERS

There are no specific performance obligations of the controlling shareholders that are required to be disclosed under paragraph 13.18 of Chapter 13 of the Listing Rules.

### COMPLIANCE WITH THE MODEL CODE SET OUT IN APPENDIX 10 TO THE LISTING RULES

The Company has adopted a code of conduct regarding securities transactions of directors and employees (the "Securities Code") no less exacting than the required standard set out in the Model Code. The Company confirms that, having made specific enquiry with all Directors, that they have complied with the required standard set out in the Securities Code for the six months ended September 30 2007.



## Other Information (Continued)

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICE

During the six months ended September 30, 2007, the Company has complied with the code provision set out in the Code of Corporate Governance Practice contained in Appendix 14 of the Listing Rules except for code provision A.2.1 and A.4.1.

According to code provision A.2.1, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. Mr. Cheng Chung Hing assumes both the said roles currently. Mr. Cheng Chung Hing who has outstanding industry experience, is one of the founders and substantial shareholders of the Group. The Board is of the view that it is in the best interest of the Group to have executive chairman who is most knowledgeable about the business of the Group and is capable to guide the growth of the Group and report to the Board in a timely manner on pertinent issues and to facilitate open dialogue between the Board and management. In addition, the Group's business is best served when strategic planning and decisions are made and implemented by the management under the leadership of Mr. Cheng.

As required by code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. Pursuant to relevant provisions of the Bye-laws of the Company, any director appointed to fill a casual vacancy shall hold office until the next annual general meeting of the Company and is therefore subject to re-election by the shareholders at that annual general meeting after his or her appointment. All Directors would retire at annual general meeting at least once every three years either by rotation pursuant to the retirement provisions of the Bye-laws or on voluntary basis. At the annual general meeting of the Company held on August 1, 2007, Mr. Kiu Wai Ming, Kenneth and Mr. Lau Chi Wah, Alex, both are Independent Non-executive Director retired from their office and were re-elected as Directors.

### AUDIT COMMITTEE

Grant Thornton has reviewed the unaudited interim results of the Group for the six months ended September 30, 2007 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by The Hong Kong Institute of Certified Public Accountants. The audit committee of the Company, which comprises all three Independent Non-executive Directors, has reviewed the unaudited interim results of the Company for the six months ended September 30, 2007 and has recommended their adoption by the Board.

On behalf of the Board  
**CHENG CHUNG HING**  
*Chairman*

Hong Kong, November 13, 2007