Man Sang International Limited

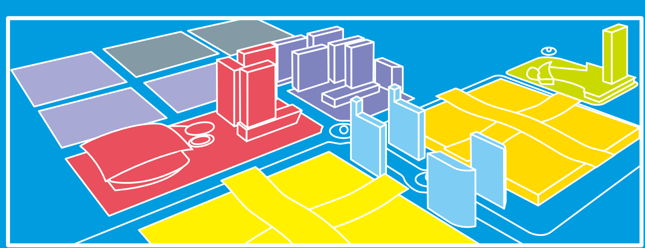
Stock Code : 0938

ANNUAL REPORT

2006/2007

The Ultimate Name In Pearls

Ever Lasting
Global Jewellery Exhibition & Trading Platform



Residential Area
Prime Apartment
Exhibition Area
Manufacturing and Processing Area
Shopping Mall
Office Building
The Market (phase I)
The Market (phase II)

CONTENTS

Corporate Information

BOARD OF DIRECTORS

Executive Directors
Mr. Cheng Chung Hing (Chairman)
Mr. Cheng Tai Po (Deputy Chairman)
Ms. Yan Sau Man, Amy

Independent Non-executive Directors
Mr. Lee Kang Bor, Thomas
Mr. Kiu Wai Ming, Kenneth
Mr. Lau Chi Wah, Alex

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

Moores Rowland

LEGAL ADVISERS

Paul, Hastings, Janofsly & Walker
Conyers Dill & Pearman

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Industrial and Commercial Bank of China (Asia) Limited
DBS Bank Ltd

PRINCIPAL SHARE REGISTRAR

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
14 Bermudiana Road
Pembroke
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Secretaries Limited
26th Floor, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

LISTING INFORMATION

The Stock Exchange of Hong Kong Limited
Ordinary Share (Stock Code: 0938)

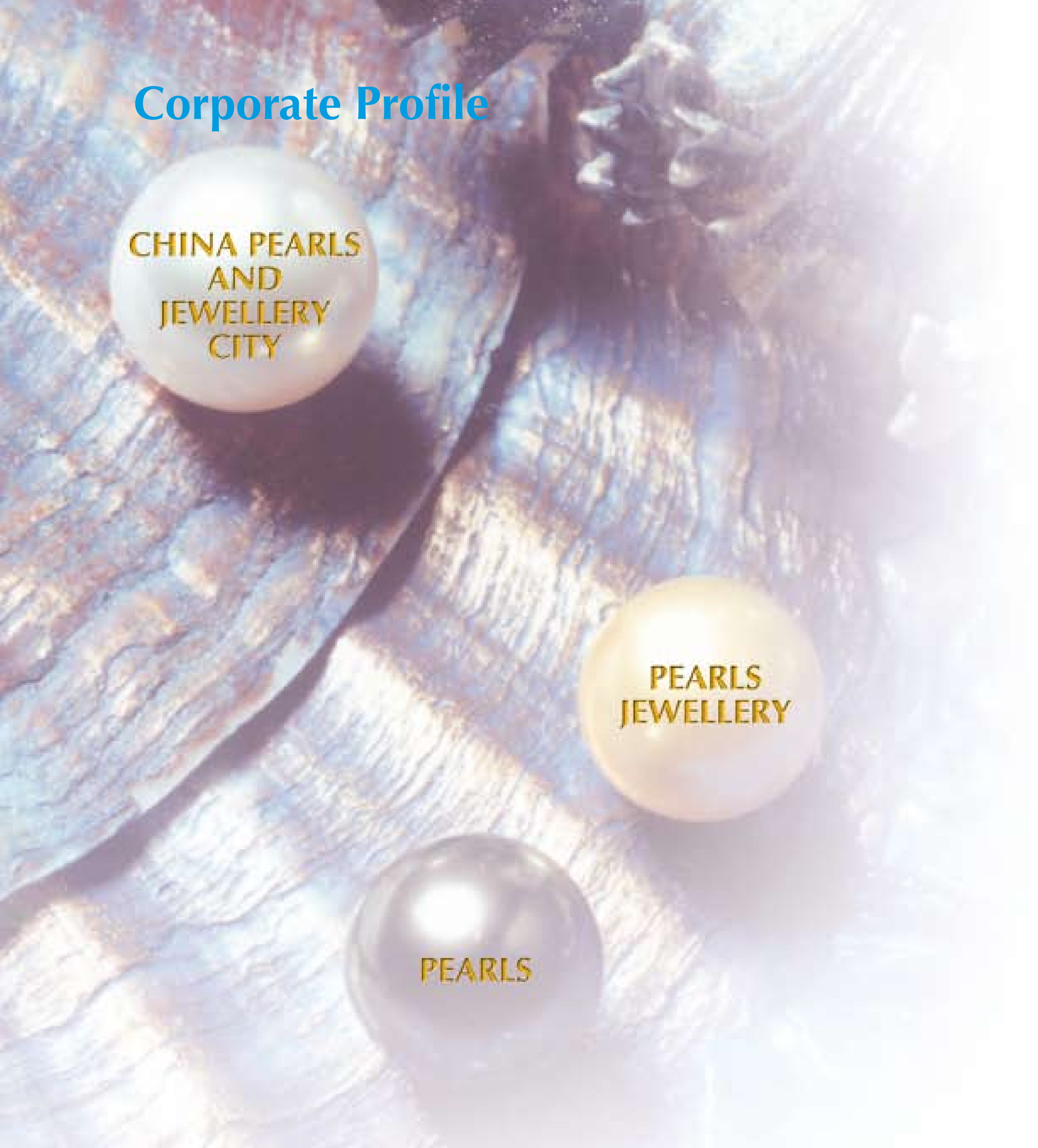
REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM11
Bermuda

PRINCIPAL PLACE OF BUSINESS

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

Corporate Profile



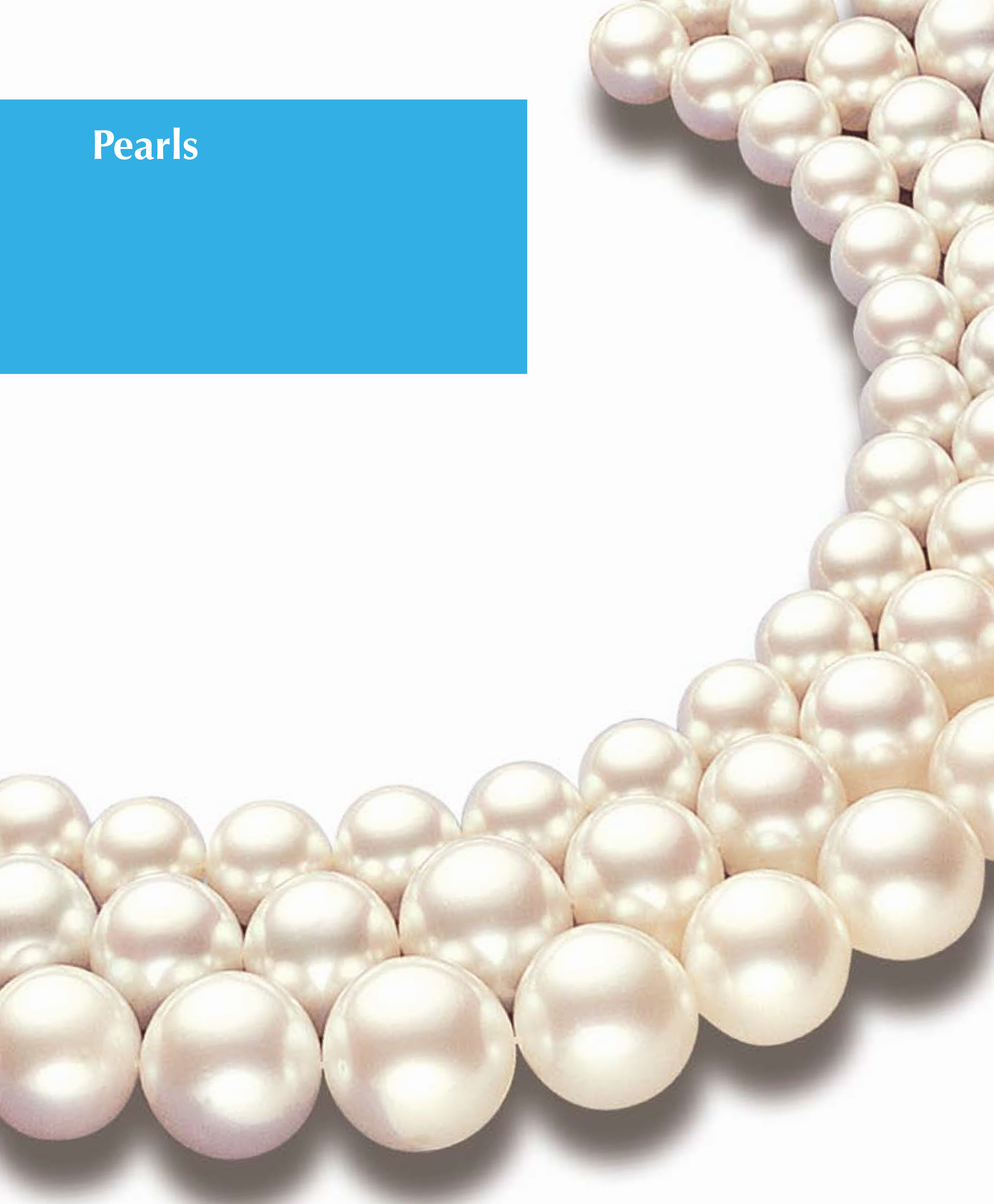
Man Sang International Limited (the "Company") and its subsidiaries (the "Group") are principally engaged in the purchasing, assembling, merchandising and wholesale distribution of pearls, pearl and non-pearl jewellery products. The Group is one of the world's largest pearl merchants and purchasers and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

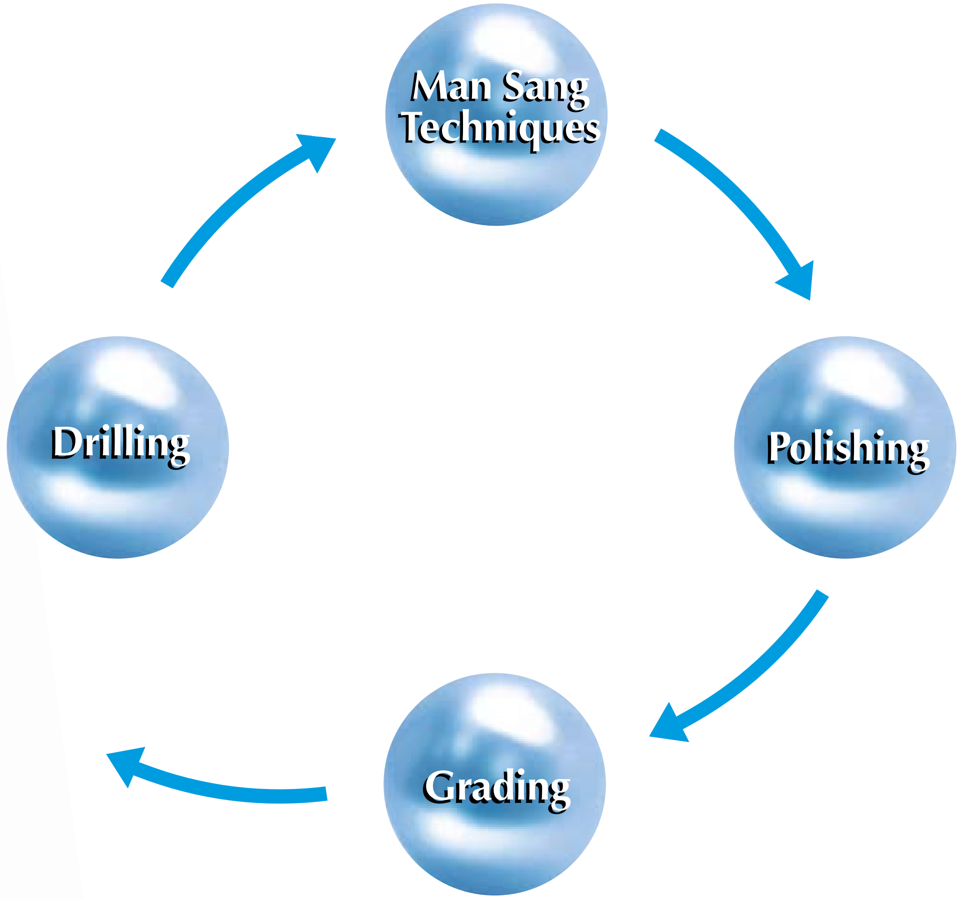
The shares of the Company have been listed on the main board of Stock Exchange of Hong Kong Limited since 1997 under the stock code of 0938. The holding company of the Company, Man Sang Holdings, Inc., is a company incorporated in Nevada State of United States of America with its shares listed on the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

Pearls





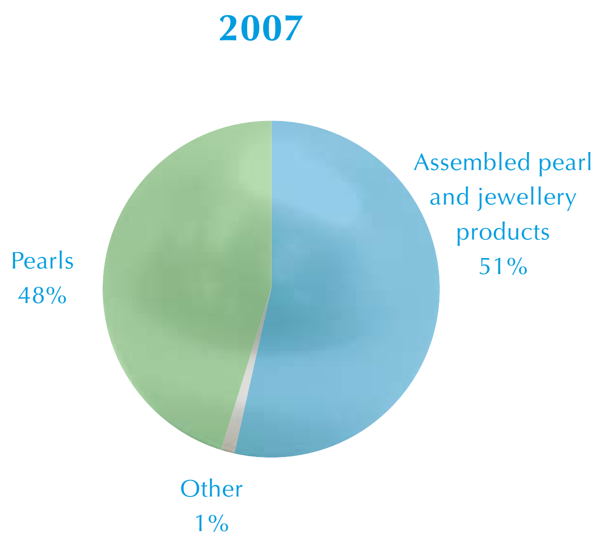
Different Types of Cultured Pearls

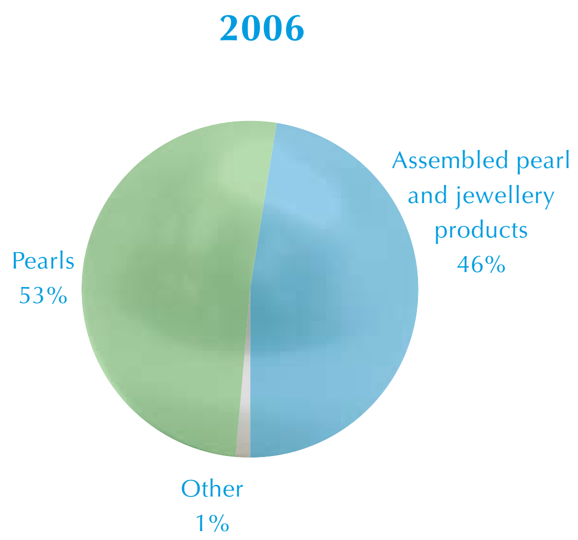
- Cultured pearls
  - Saltwater cultured pearls
    - Other
      - Mabe pearls
    - Akoyas
      - Chinese Akoyas / Chinese cultured pearls
      - Japanese Akoyas / Japanese cultured pearls
    - South Sea pearls
      - Black South Sea pearls/ Tahitian pearls
      - White South Sea pearls
      - Gold South Sea pearls
  - Freshwater cultured pearls

Financial Highlights

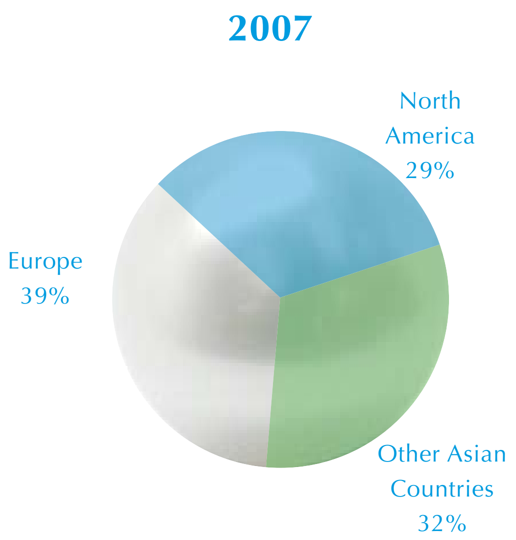
	Increase/(Decrease) HK$'000	change (%)	2007 HK$'000	2006 HK$'000
Key Financial Performance				
For the year ended March 31				
Turnover	19,982	5%	398,279	378,297
Gross Profit	6,845	6%	112,699	105,854
Profit before taxation	20,349	43%	67,165	46,816
Profit for the year	16,971	39%	59,951	42,980
Earnings per share				
— Basic			5.99 cents	4.29 cents
— Diluted			5.88 cents	N/A
Net asset values	70,619	12%	679,044	608,425
Key Financial Ratios				
For the year ended March 31				
Gross profit margin			28%	28%
Current ratio (times)			11	13
Return on shareholders' funds			8.83%	7.06%
Total liabilities/total assets			9.42%	7.06%

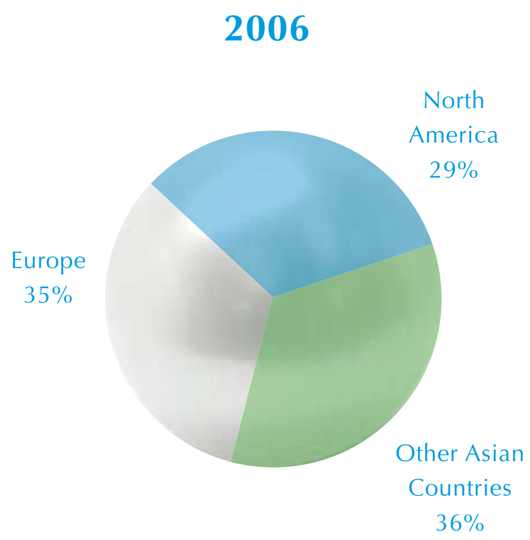
Turnover by Products





Turnover by Geographical Segments





Highlights of the Year 2006/2007

April 18, 2006
Ground-breaking ceremony for China Pearls and Jewellery City ("CP&J City").

June 5, 2006
Presentation of CP&J City and dinner reception in Las Vegas, United States of America.

September 19, 2006
Presentation of CP&J City and cocktail reception at Grand Hyatt Hong Kong.

September 21 – 22, 2006
"International Press Trip" to CP&J City.

November 8, 2006
Presentation of CP&J City in China International Jewellery Fair in Beijing.

December 13, 2006
Presentation of CP&J City in Dubai World Trade Centre, Dubai.

January 21 to 23 2007
Participated in JA International Jewellery (Winter) Show

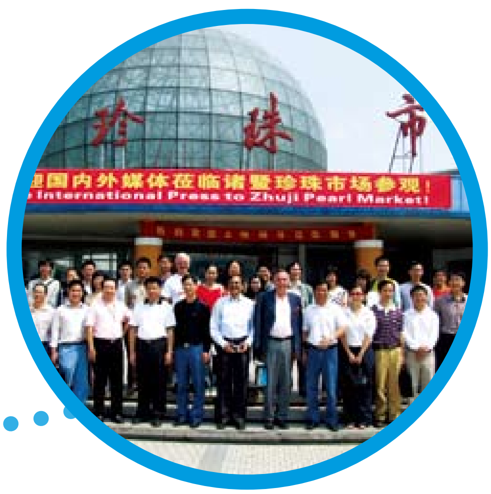
January 25, 2007
Presentation of CP&J City in Tokyo, Japan.

March 1 to 4, 2007
Exhibition of CP&J City in China International Gold, Gem and Jade Fair.

March 8, 2007
The Group entered into an agreement to acquire further 6% equity interests of CP&J City. The acquisition was completed on April 12, 2007.

March 10, 2007
Participation in Hong Kong International Jewellery Show 2007

March 11 to 13, 2007
International Entrepreneurs Study Mission to CP&J City.



Corporate Structure

Mr. Cheng Chung Hing
(10.64%)
(Note 2)

Mr. Cheng Tai Po
(7.58%)
(Note 3)

Pearl and jewellery products subcontracting, trading, manufacturing

Man Sang Jewellery Company Limited
(100%)

Man Hing Industry Development (Shenzhen) Co., Ltd
(100%)

Asean Gold Limited
(100%)

Arcadia Jewellery Limited
(100%)

Note 1

A company incorporated in Nevada State of the United States of America with limited liability and its shares are listed on the American Stock Exchange under symbol of "MHJ".

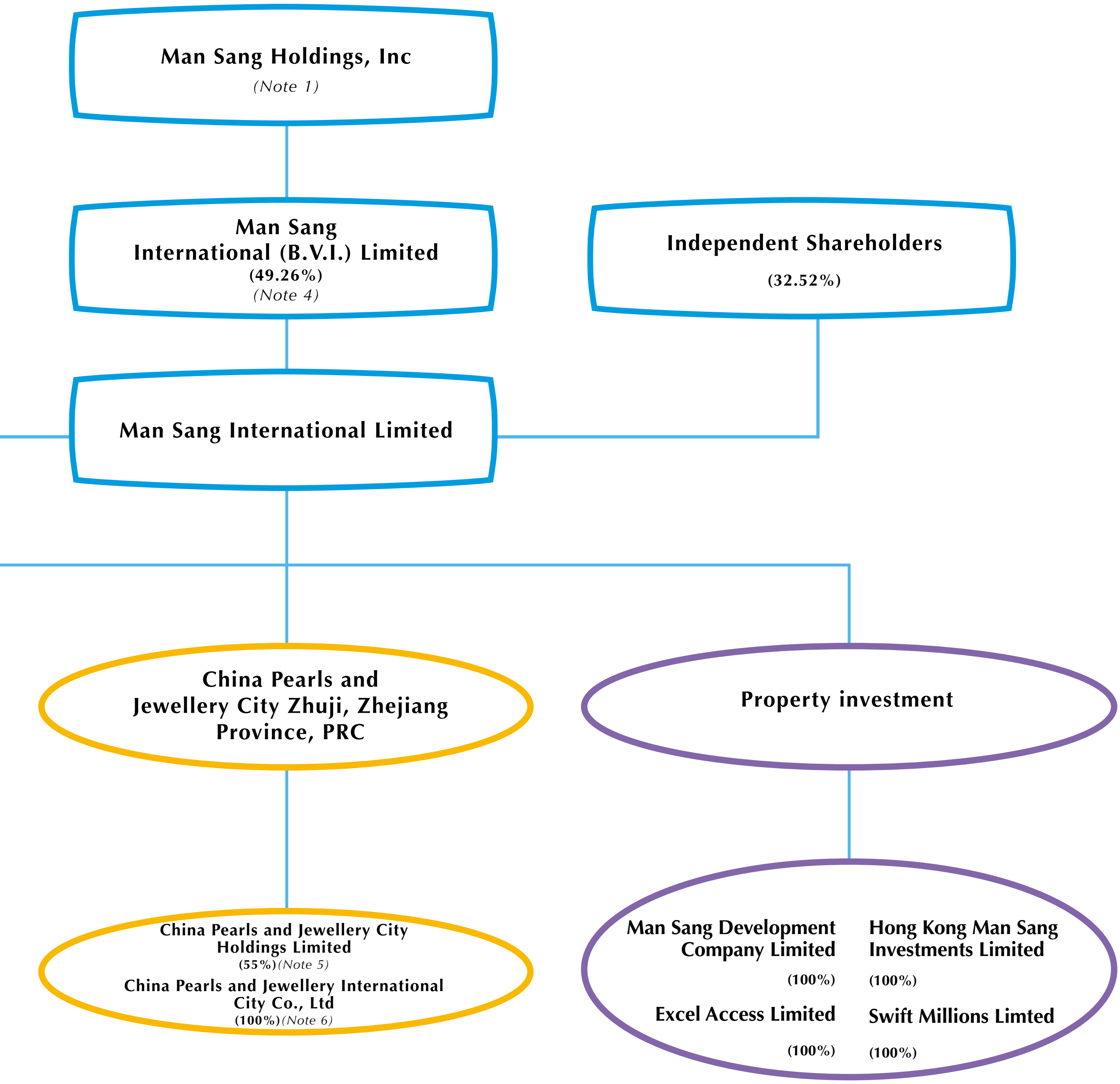
Note 2

The total of 4.340% of direct holding and 6.303% through Central Clearing and Settlement System of the issued share capital of Man Sang International Limited.

Note 3

The total of 2.893% of direct holding and 4.687% through Central Clearing and Settlement System of the issued share capital of Man Sang International Limited.

Corporate Structure



Note 4

A wholly-owned subsidiary of Man Sang Holdings, Inc.

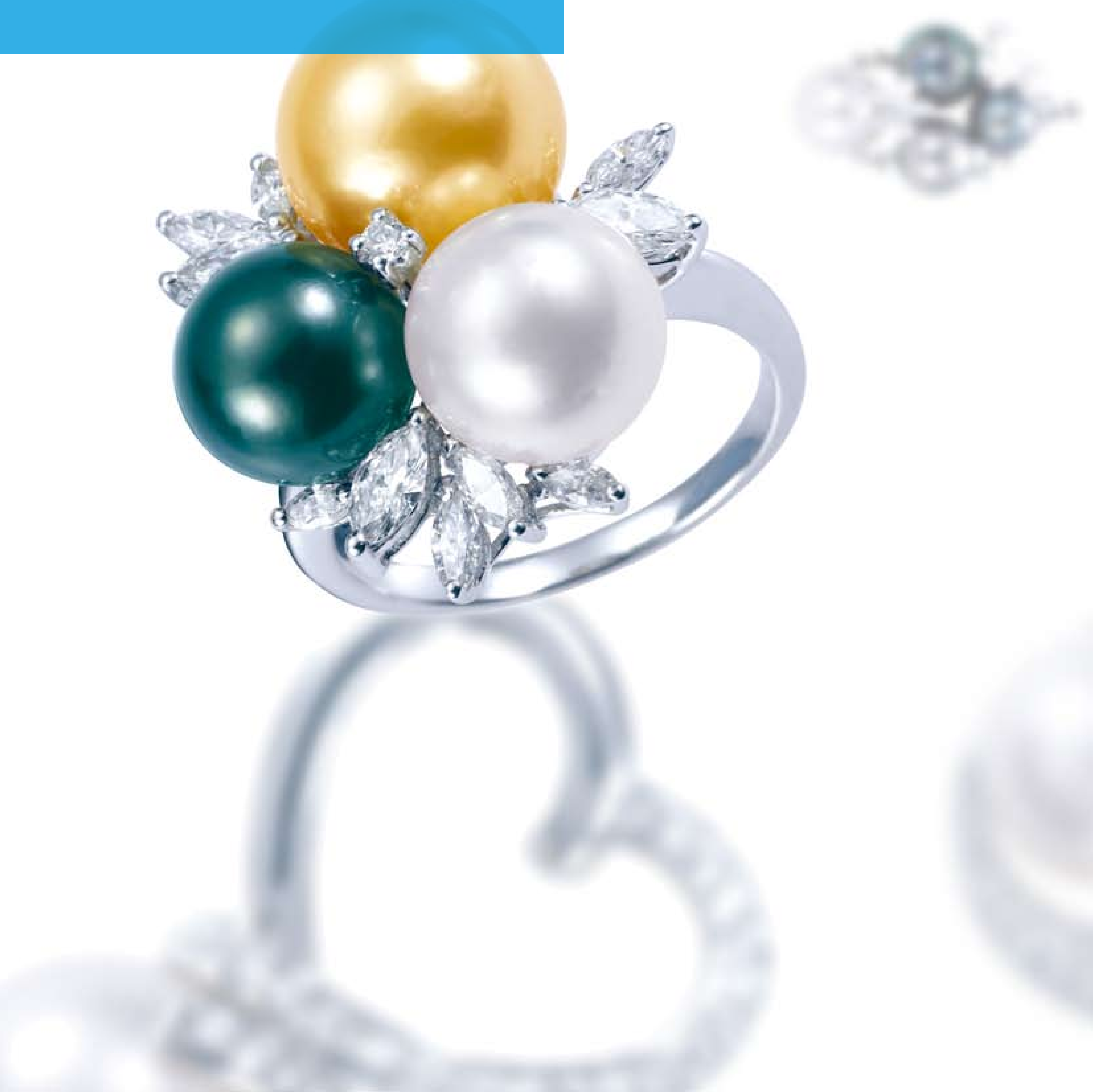
Note 5

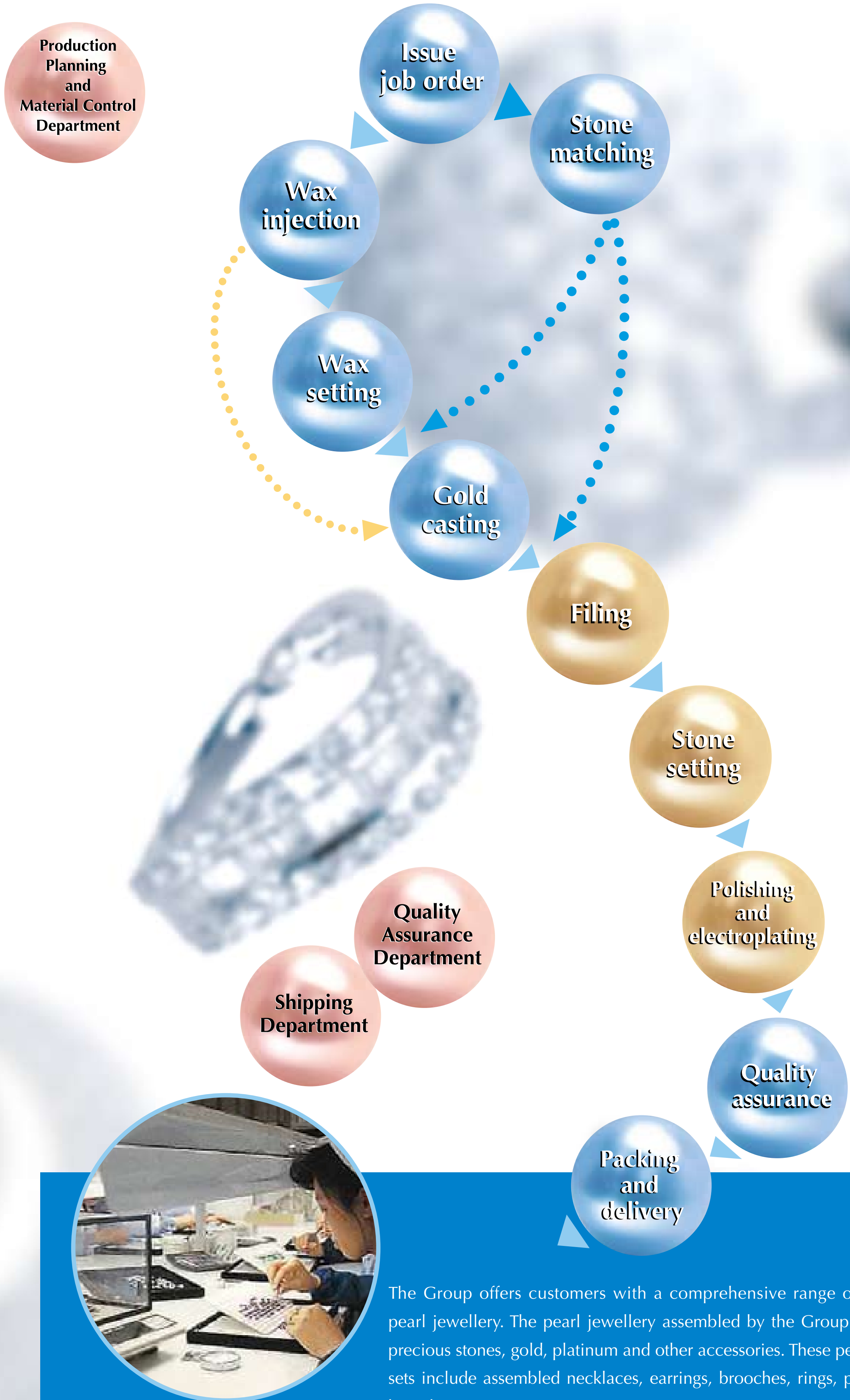
After the completion of further acquisition of 6% equity interest on April 12, 2007.

Note 6

China Pearls and Jewellery City Holdings Limited is the holding company of China Pearls and Jewellery International City Co., Ltd.

Assembled Pearls & Non-pearls Jewellery





The Group offers customers with a comprehensive range of assembled pearl jewellery. The pearl jewellery assembled by the Group are set with precious stones, gold, platinum and other accessories. These pearl jewellery sets include assembled necklaces, earrings, brooches, rings, pendants and bracelets.

Chairman's Statement

Mr. Cheng Chung Hing
Chairman

Net profit for this fiscal year showed an increase from HK$43 million to HK$60 million representing an increase of 39% when compared to last fiscal year.

On behalf of the Board, I am pleased to present the results of the Group for the year ended March 31, 2007. In the year under review, the Group recorded an increase in turnover from HK$378 million in 2006 to HK$398 million in 2007, representing an increase of 5% when compared to the same period of last fiscal year. The increase in turnover was mainly due to an increase in sales of assembled pearl and non-pearl jewelleries. Net profit for the year 2006-7 showed an increase from HK$43 million to HK$60 million, representing an increase of 39% when compared to the same period of last fiscal year.

Business Review

Sales of Pearls, Assembled Pearl and Non-pearl Jewelleries

During the year, the Group continued participating actively in various international and local famous pearl and jewellery shows including Hong Kong Jewellery & Watch Fair, Baselworld and the JCK Las Vegas Show. We noted a steady growth in demand for pearls from international and local buyers. While US market recorded a drop during the period, our European market grew significantly. This could be attributable to our subsidiary, Arcadia Jewellery Limited, successful in selling and marketing our jewellery products in Europe. Many of our customers in Europe are among the largest jewellery industry players in their respective markets. Their continuous placing of orders with us 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 (including white and gold South Sea pearls and Tahitian Black pearl) market. While the pearls accounted for 47.7% of our total turnover, the assembled pearl and non-pearl jewelleries accounted for 51.6% of our total turnover.

China Pearls and Jewellery City — Tapping China's Potential

Subsequent to the acquisition of 49% equity interest in China Pearls and Jewellery City ("CP&J City") in Zhuji, Zhejiang Province, the People's Republic of China on February 10, 2006, the Group further acquired 6% equity interest in CP&J City on March 8, 2007 and the transaction had been completed on April 12, 2007. During the year, the Group had carried out roadshows in promoting the CP&J City worldwide including in the US, Japan, Dubai, Switzerland, Italy, Thailand as well as in the Mainland China and had received well responses. The Group views CP&J City Project as an extension of the Group's core pearl and jewellery businesses. The CP&J City has positioned itself as a "one-stop" trading platform for both domestic and foreign pearls and jewellery companies in China. It is regarded as a major development project at both municipal and provincial levels. CP&J City is one of the primary projects that received strong support from the Provincial Government of Zhuji. Combined with the pace of economic growth in China and the 2008 Olympic Games in Beijing, the Group expects the CP&J City would have attractive contributions towards our net earning. Furthermore, we expect that the development of the CP&J City would bring to the Group advantages in our core business including the enlargement of our customer base and reinforcement of our status as leading player in pearls and jewelleries industry.

Final Dividend

The Board recommended the payment of a final dividend of HK3.00 cents per share (2006: Nil) for the year ended March 31, 2007.

Closure of Register of Members

The register of members will be closed from July 30, 2007 to August 1, 2007, both days inclusive, during which period no transfer of shares will be effected. To qualify for the proposed final dividend, all transfers must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Secretaries Limited, at 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:00 p.m. on July 27, 2007.

It is expected that the relevant dividends will be payable to those entitled on or before August 15, 2007 subject to the shareholders' approval in the annual general meeting of the Company to be held on August 1, 2007.

Prospects

Pearls and jewellery products remain the core business of the Group. We expect to maintain our strong position in the South Sea pearls market while our performance in the sales of assembled pearl and jewellery products suggests that we have the potential to further expand on this forward integrated business.

I would like to take this opportunity to express my sincere gratitude to the Group's shareholders, customers and suppliers for their continuing support and trust and to all members of the Board and the employees for their hard work and contributions to the Company.

Cheng Chung Hing
Chairman

Hong Kong, June 28, 2007

China Pearls & Jewellery City

The exhibition centre of China Pearls and Jewellery City shall facilitate the exhibition and display of all new types of pearls and jewellery products, latest jewellery design both from home and abroad, exhibit and display products knowledge and product culture about international markets, jewellery evaluating and grading. Conferences, seminars and events promoting cultural exchange will also be organized and hosted in the centre from time to time.

Management Discussion and Analysis

Business Review

Overall Performance

For the year ended March 31, 2007, the Group recorded a total turnover of HK$398,279,000, an increase of 5% compared to HK$378,297,000 in the previous year; the profit attributable to equity holders was HK$59,951,000, increased by 39% when compared to HK$42,980,000 in the previous year. Excluding the increase in fair values from investment properties and leasehold land and buildings, which were HK$2,139,000 in the year of review and HK$121,000 in 2006 respectively, the profit attributable to equity holders for the year increased by 35% compared to 2006.

Basic earnings per share increased from HK4.29 cents in 2006 to HK5.99 cents in 2007.

Compared to 2006, the sharp increase in the profit attributable to equity holders 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 disposal of obsolete inventories.

The Group continued engaging in the pearl business operations as its core business. During the year, south sea pearl, assembled pearl and jewellery products and others accounted 36.9%, 51.6% and 11.5% (2006: 39.9%, 45.6% and 14.5%) of the total sales of the Group. Based on the geographical analysis, the growths in United States of America and European markets were steady during the year of review. 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. We will consistently adopt the sales strategies to expand our customer network and implement an effective cost control on production.

The Group, through a vertical integration in pearl and jewellery business, speeded up its pace for China Pearls and Jewellery City's project ("CP&J City project"). During the year, the Group made an injection of HK$85 millions for CP&J City project. On April 12, 2007, the Group increased its equity interests in the CP&J City project from 49% to 55%. It is expected the first phase of CP&J City project would be completed by 2008 as planned. Combined with the effects on the high-geared economy growth in the People's Republic of China ("PRC") and 2008 Olympic Games in Beijing, we expect an attractive contribution to the Group after the launch of sales and/or leasing of the CP&J City. The development of CP&J City project would bring the Group an exceptional advancement in our core business including the enlargement of our customers' base and reinforcement our market leader's status in the pearl industry. We believe the above strategies and new project investment will enable us to grow more effectively in their respective markets and at the same time reduce our business risks. We will take our best efforts to increase the Group's values in return for the brilliant future and prospects.

Financial Review

Turnover and Gross Profit

Total turnover for the year ended March 31, 2007 increased by HK$19,982,000, or 5% to HK$398,279,000, compared to HK$378,297,000 for the corresponding period last year. The increase was mainly attributable to the increase in turnover of assembled pearl and jewellery finished products.

Gross profit for the year ended March 31, 2007 increased by HK$6,845,000, or 6%, to HK$112,699,000 from HK$105,854,000 for corresponding period last year. In terms of percentage of turnover, the gross profit margin was consistently maintained at 28% when compared with last year. For the sales mix during the period of review, the turnover of assembled pearl and jewellery products accounted for 51.6% of the total turnover for the year ended March 31, 2007, increased by 6% compared to that of 45.6% for the year ended March 31, 2006.

Investment Income

Investment income for the year ended March 31, 2007 was HK$10,825,000, compared to HK$7,672,000 for the year ended March 31, 2006, increased HK$3,153,000, or 41%. Even though the drop on the available funds after the payment to the China Pearls and Jewellery City Holdings Limited, the Group earned a satisfactory interest income as a result of the management of the Group closely monitored and effectively re-allocated the available funds in the banks. The Group disposed of certain of its financial assets at profit.

Other operating Income

Other operating income for the year ended March 31, 2007 was HK$28,250,000, compared to HK$4,756,000 for the year ended March 31, 2006, representing an increase of HK$23,494,000, or 494%. The increase was mainly attributable to sales of obsolete inventories which had been fully written down in previous years and the increase in rental income from our Man Sang Industrial City located in Shenzhen, PRC.

Selling, General and Administrative Expense ("SG&A expense")

SG&A expense for the year ended March 31, 2007 was HK$87,294,000, compared to HK$74,780,000 for the year ended March 31, 2006, increased by HK$12,514,000, or 17%. The higher SG&A expense was mainly due to the one-time stock compensation expense of HK$5,317,000 resulted from the grants of share options by the Company to certain directors and employees of the Group and management information system enhancement costs of HK$3,821,000.

In terms of percentage of the turnover, SG&A expense increased from 20% in 2006 to 22% in 2007. Excluding the one-time stock compensation expenses of HK$5,317,000 and management information system enhancement costs of HK$3,821,000, the percentage of turnover, SG&A expenses decreased from 20% in 2006 to 19% in 2007.

Income Tax Expense

Income tax expense for the year ended March 31, 2007 was HK$7,214,000, when compared to HK$3,836,000 for the year ended March 31, 2006. The increase was due to the increase of profits for the year.

Profit attributable to equity holders for the year

Profit attributable to equity holders for the year ended March 31, 2007 amounted to HK$59,951,000, representing a robust increase of 39% compared to HK$42,980,000 for the year ended March 31, 2006.

Liquidity and Capital Resources

Our primary liquidity needs are funded by the collection of accounts receivable and sales of inventory. As of March 31, 2007, the Group had working capital of HK$381,802,000 (2006: HK$384,645,000), which included a cash balance of HK$296,426,000 (2006: HK$286,580,000). The current ratio was 10.5 to 1 (2006: 12.6 to 1) as of March 31, 2007. Net cash generated from operating activities was HK$67,688,000 (2006: HK$60,257,000) for the year ended March 31, 2007. Net cash used in investing activities for the year ended March 31, 2007 was HK$74,757,000 (2006: HK$3,711,000) and net cash provided by financing activities was HK$16,580,000 (2006: HK$150,000 used in financing activities). The Group had available working capital facilities of HK$105,000,000 (2006: HK$77,000,000) with various banks as at March 31, 2007. Such banking facilities included letter of credit arrangements, import loans, overdraft and other facilities commonly used in the jewellery business. All such banking facilities bear interest at floating rates generally offered by banks in Hong Kong and pledged with leasehold land and buildings and investment properties. Banking facilities review was performed periodically. As at March 31, 2007, the Group did not utilize these banking facilities. The Group's gearing ratio was zero.

Assets and liabilities

As at March 31, 2007, the total assets were amounted to HK$749,676,000 (2006: HK$654,655,000). Total liabilities were amounted to HK$70,632,000 (2006: HK$46,230,000).

Net assets values amounted to HK$679,044,000 (2006: HK$608,425,000). The increase mainly represented the profit for the year and the value of the new shares issued after the exercise of options. Net assets value per share was HK$0.68 (2006: HK$0.61), up 11% when compared to the corresponding period last year.

As at March 31, 2007, cash and cash equivalents was HK$296,426,000 (2006: HK$286,580,000), accounted 70% (2006: 69%) of current assets of the Group.

The Group has sufficient financial resources to meet its capital commitment and the requirements of working capital for future development.

Contingent liabilities

During the year of review, the Company issued corporate guarantees to banks in respect of general banking facilities granted to its subsidiaries. No banking facilities have been utilized by subsidiaries as at March 31, 2007.

As at March 31, 2007, the Group had no significant contingent liabilities.

Treasury Policy

During the year, the Group had no material exposure to exchange rate fluctuations. The Group did not have any financial instruments for hedging purposes.

Major Customers And Suppliers

For the year ended March 31, 2007, the aggregate amount of sales from the five largest customers accounted for 41% (2006: 36%) of the total turnover of the Group, and the aggregate amount of purchases from the five largest suppliers accounted for 52% (2006: 62%) of the total purchases of the Group.

Employees

As at March 31, 2007, the Group had 1,026 (2006: 1,030) employees, of whom 79 (2006: 80) employees were based in Hong Kong.

For the year ended March 31, 2007, the total staff cost, including directors' emoluments, share-based payments and provident funds, was approximately HK$53,463,000 (2006: HK$44,474,000). Employees were remunerated on the basis of their performance and experience. Remuneration package including salary and year-end discretionary bonus was determined with reference to market conditions and individual performance. During the year, all Hong Kong employees have participated in the Mandatory Provident Fund Scheme.

Profile of Directors and Senior Management

Executive Directors

Mr. CHENG Chung Hing, aged 46, is the Chairman and the Chief Executive Officer of the Company. He is responsible for the overall management of the Group as well as the formulation and development of the Group's corporate policies and business strategies. Mr. Cheng had been awarded "Hong Kong Young Industrialists Award 1997" by the Federation of Hong Kong Industries and "Distinguished International Entrepreneur of the Year Award" by San Francisco State University. Mr. Cheng is the Adjunct Professor of the College of Business of San Francisco State University, United States of America and honorary life president of the Hong Kong Gemstone Manufacturers Association. He has over 25 years of experience in pearl business.

Mr. CHENG Tai Po, aged 55, is the Deputy Chairman of Company. He is responsible for the purchasing and processing of pearls of the Group and has developed a special pearl processing technique, as well as a special grading system which is used by a large number of the Group's customers. Mr. Cheng is a board member of the Zhanjiang Ocean University, the PRC and a general committee member of the Hong Kong Jewellery Manufacturers' Association. Over the years, Mr. Cheng has developed close relationships with pearl suppliers and has built up a strong and reliable supply network. He has over 25 years of experience in pearl business. Mr. Cheng Tai Po is the brother of Mr. Cheng Chung Hing.

Ms. YAN Sau Man, Amy, aged 44, is also the Sales Director of the Company. She is responsible for the formulation and implementation of the Group's overall sales and marketing strategies. Ms. Yan has over 20 years of experience in sales and marketing in pearl business. Ms Yan is responsible for the formulation and implementation of the Group's overall sales and marketing strategies.

Independent Non-executive Directors

Mr. LEE Kang Bor, Thomas, aged 53, is also the managing director of Thomas Lee & Partners Limited and an independent non-executive director and chairman of the audit and remuneration committee of CIG Yangtze Ports PLC which shares are listed on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited. Mr. Lee is a member of the Society of Trust and Estate Practitioners, The Chartered Institute of Company Secretaries and Administrators in the United Kingdom and The Hong Kong Institute of Chartered Secretaries; a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and The Taxation Institute of Hong Kong. Mr. Lee holds a bachelor's and master's degrees in laws from the University of London and was called to the bar of the Lincoln's Inn. He served as president of The Taxation Institute of Hong Kong from 1999 to 2002, and is an advisor of the Asia-Oceania Tax Consultants' Association.

Mr. KIU Wai Ming, Kenneth, aged 59, has been in the banking and finance field for over 30 years. He is currently an executive director of Walker Group Holdings Limited, a company listed on the Hong Kong Stock Exchange. He is also an independent non-executive director of China Construction Bank (Asia) Ltd. and CCB International (Holdings) Ltd. Mr. Kiu holds a bachelor's degree in economics and marketing from Louisiana State University, the United States of America. Mr. Kiu has over 30 years of experience in finance and banking.

Mr. LAU Chi Wah, Alex, aged 44, is also the executive vice president of the corporate finance department of CIMB-GK Securities (HK) Limited. Mr. Lau is a member of the Institute of Chartered Accountants in England and Wales. He holds a bachelor's degree in accounting from University of East Anglia, United Kingdom. Mr. Lau manages initial public offerings and fund-raising exercises and advises listed companies on mergers and acquisitions, takeovers, buyouts and other corporate transactions. He has over 20 years of experience in corporate finance and accounting.

Senior Management

Mr. PAK Wai Keung, Martin, aged 43, is the financial controller and company secretary of the Company. He joined the Group in August 2006. Mr. Pak had worked for several international accounting firms and a bank in Hong Kong. He is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Pak is a fellow member of Hong Kong Institute of Certified Public Accountants. He has over 18 years of experience in accounting, finance and management.

Mr. HUNG Kwok Wing, aged 43, is the Assistant to Chairman. He is responsible for the business developments and corporate affairs of the Group. Mr. Hung holds a bachelor's degree in finance and banking from San Francisco State University, United States of America, master's degree in business administration from the Baptist University of Hong Kong and master's degree in accounting from the Chinese University of Hong Kong. He has vast experience in banking and financial management.

Mr. CHENG Sai, aged 50, is the Deputy General Manager of Man Hing Industry Development (Shenzhen) Co., Ltd ("Man Hing"). He is responsible for the overall operations of Man Hing. Mr. Cheng has over 20 years of experience in pearl business. He is the brother of Mr. Cheng Chung Hing and Mr. Cheng Tai Po.

Mr. XU Zhu Qi, aged 52, is responsible for business management. Mr. Xu had worked as a manager in several enterprises in Mainland China. He has over 20 years of experience in management.

Corporate Governance Report

THE COMMITMENT AND COMPLIANCE OF THE COMPANY

The Board is committed to maintaining high standards of corporate governance. It believes that high standards of corporate governance provide a framework and solid foundation for the Group to manage business risks, enhance transparency, maintain high standard of accountability and protect shareholders' interest in general. The Board has adopted a Corporate Governance Statement of Policy which gives guidance on how corporate governance principles are applied to the Group.

The Group has applied the principles and complied with all the applicable provisions of the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("Listing Rules") throughout the year ended March 31, 2007 except that (i) the Independent Non-executive Directors have not been appointed for any specific terms, but they are subject to retirement and eligible for re-election in each annual general meeting in accordance with Bye-Laws of the Company and (ii) Mr. Cheng Chung Hing ("Mr Cheng") assumes the role of both the Chairman and the Chief Executive Officer of the Group.

In addition to complying with applicable statutory requirements, the Group aims to continually review and enhance its corporate governance practices in the light of local and international best practices.

STATEMENT OF COMPLIANCE

A. Directors

A.1 The Board

Principle of the Code

> An issuer should be headed by an effective board which should assume responsibility for leadership and control of the issuer and be collectively responsible for promoting the success of the issuer by directing and supervising the issuer's affairs. Directors should take decisions objectively in the interests of the issuer.

The overall management of the Group's business is vested in the Board.

The Board takes responsibility to oversee all major matters of the Group, including the formulation and approval of all policy matters, overall strategies, internal control and risk management systems, and monitoring the performance of the senior management. The directors have to take decisions objectively in the interests of the Group.

The day-to-day management, administration and operation of the Group are delegated to the senior management of the Company. The delegated functions and work tasks are periodically reviewed.

The Board is currently composed of three Executive Directors (including the Chairman and Deputy Chairman of the Company) and three Independent Non-executive Directors, whose biographical details are set out in "Profile of Directors and Senior Management".

During the year, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with at least one independent non-executive director possessing appropriate professional qualifications, or accounting or related financial management expertise.

In addition, the Company has received from each of the Independent Non-executive Director an annual confirmation of their independence pursuant to Rule 3.13 of the Listing Rules.

Code Provisions	Compliance	Actions by the Company
A.1.1 The board should meet regularly and board meetings should be held at least four times a year at approximately quarterly intervals.	Yes	The Board met four times during the year and conducted the following principal activities: — approval of interim, quarterly and final results, announcements; interim, quarterly and annual reports, and declaration of dividends; — discussion of business strategies and plans; — retirement and re-election of Ms Yan Sau Man, Amy and Mr. Lee Kang Bor, Thomas, as Directors in compliance with the Bye-law of the Company and the Code; — re-appointment of auditors; — matters to be considered at the Annual General Meeting
A.1.2 All directors shall be given an opportunity to include matters in the agenda for regular board meetings.	Yes	Draft agendas for regular board meetings are provided to all Directors for comments and consideration for including any matters for deliberation at such meetings.
A.1.3 Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other meetings, reasonable notice should be given.	Yes	At least 14 days' prior notice had been given for all regular Board meetings. Reasonable advanced notices by phone and/or in writing are given to all Directors for all other Board meetings.
A.1.4 All directors should have access to the advice and services of the company secretary with a view to ensuring that board procedures and all applicable rules and regulations are followed.	Yes	Directors have access to the services of the Company Secretary who is responsible for ensuring that the Board procedures are complied with. The Company Secretary has attended all board meetings and answered questions raised by the Board members.

Code Provisions	Compliance	Actions by the Company
A.1.5 Minutes of board meetings and meetings of board committee should be kept by a duly appointed secretary of the meeting and open for inspection on reasonable notice by any director.	Yes	Minutes are kept by the Company Secretary as secretary of the meetings and available for inspection at the Company's principal place of business. Such minutes are distributed to and available for inspection by Directors/Board committee members as required.
A.1.6 Minutes of board meetings and meetings of board committees should be recorded in sufficient detail. Draft and final versions of minutes should be sent to all directors for their comment and records within a reasonable time after the board meeting is held.	Yes	All draft minutes of Board meetings and Board committees were recorded in sufficient details and sent to Directors or committee members, as the case may be, for review and comment within a reasonable time of each meeting.
A.1.7 There should be a procedure for directors to seek independent professional advice at the issuer's expense.	Yes	Directors are aware that independent professional advice, if required, can be sought at the Company's expense. The procedure is that such request for advice should be raised at a Board meeting or, in case of emergency, by way of circulation to all Directors.
A.1.8 If a substantial shareholder/director has a conflict of interest in a matter to be considered by the board which the board has determined to be material, a board meeting should be held. Independent non-executive directors should be present at such board meeting.	Yes	The Company has adopted such a policy.

Compliance with Recommended Best Practice

— There is in place a Directors & Officers' Liabilities Insurance cover in respect of legal actions against the Directors and senior management arising out of corporate activities; and

— Board committees have adopted broadly the same principles and procedures as stated in A.1.1 to A.1.8 of Appendix 14 to the Listing Rules.

A.2 *Chairman and Chief Executive Officer*

Principle of the Code

There should be a clear division between the management of the board and the day-to-day management at the board level of the issuer's business to ensure a balance of power and authority so that power is not concentrated in any one individual.

Code Provisions	Compliance	Actions by the Company
A.2.1 The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.	No	Currently, the Company has not complied with this provision. The positions of the Chairman and Chief Executive Officer are held by Mr. Cheng. Mr. Cheng is one of the founders and a substantial shareholder of the Group and has outstanding industry experience. The Board is of the view that it is in the best interest of the Group to have an 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.
A.2.2 & A.2.3 The chairman should ensure that all directors are properly briefed on issues arising at board meetings and they receive adequate information in a timely manner.	Yes	The Chairman has ensured that all Directors are properly briefed and provided adequate information on issues arising at Board meetings in a timely manner.

Compliance with Recommended Best Practice

— Clear division of responsibilities between Chairman and the Deputy Chairman has been approved and adopted by the Company.

— The Chairman has a clear responsibility to ensure that the Board works effectively and discusses all key and relevant issues.

— The Company has in place a formal process of Board evaluation since 2005. The process takes the form of a meeting between the Chairman and/or Deputy Chairman and Independent Non-executive Directors without management presence, to be held at least once a year. These annual meetings serve as a forum where a broad range of strategic and performance matters are openly discussed.

A.3 Board composition

Principle of the Code

The board should have a balance of skills and experience appropriate for the requirements of the business of the issuer. The board should include a balanced composition of executive and non-executive directors (including independent non-executive directors) so that there is a strong independent element on the board, which can effectively exercise independent judgment. Non-executive directors should be of sufficient caliber and number for their views to carry weight.

The Board as a whole is responsible for reviewing the Board composition, developing and formulating the relevant procedures for appointment of directors, monitoring the appointment and succession planning of directors and assessing the independence of Independent Non-executive Directors. The Board has from time to time reviewed its own structure, size and composition to ensure that it has a balance of expertise, skills and experience appropriate to the corporate governance requirement of the Group as well as the ongoing development and management of its business activities.

Code Provisions	Compliance	Actions by the Company
A.3.1 The independent non-executive directors should be expressly identified as such in all corporate communications.	Yes	Independent Non-executive Directors are always disclosed as such in all corporate communications.

Compliance with Recommended Best Practice

Biographies of Directors, including clear designation of their roles and responsibilities are maintained on the Company's website at www.man-sang.com.

A.4 Appointment, re-election and removal

Principle of the Code

There should be a formal and transparent procedure for the appointment of new directors to the board. There should be plans in place for orderly succession for appointments to the board. All directors should be subject to re-election at regular intervals. An issuer must explain the reasons for the resignation or removal of any director.

Code Provisions	Compliance	Actions by the Company
A.4.1 & A.4.2 Non-executive directors should be appointed for a specific term, subject to re-election. All directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.	Partial Compliance	Pursuant to relevant provision 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/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 a voluntary basis. At the Annual General Meeting of the Company held on August 3, 2006, Ms. Yau Sau Man, Amy, Executive Director and Mr. Lee Kang Bor, Thomas, Independent Non-executive Director retired from office and were re-elected as Directors.

A.5 *Responsibilities of directors*

Principle of the Code

Every director is required to keep abreast of his responsibilities as a director of an issuer and of the conduct, business activities and development of that issuer. Non-executive directors have the same duties of care and skill and fiduciary duties as executive directors.

Code Provisions	Compliance	Actions by the Company
A.5.1 Every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on the first occasion of his appointment, and subsequently such briefing and professional development as is necessary, to ensure that he has a proper understanding of the operations and business of the issuer and that he is fully aware of his responsibilities under statute and common law, the Exchange Listing Rules, applicable legal requirements and other regulatory requirements and the business and governance policies of the issuer.	Yes	No new director was appointed during the year. An information package containing an introduction to the Group's operations, the Code, and directors' responsibilities, duties and other applicable statutory and regulatory requirements will be provided to newly appointed directors upon their appointment. The Company Secretary is responsible for keeping all Directors updated on Listing Rules and other applicable statutory requirements.
A.5.2 The functions of non-executive directors should include: (a) bring an independent judgment at the board meeting; (b) take the lead where potential conflicts of interests arise; (c) serve on the audit, remuneration, and other governance committees, if invited; and (d) scrutinize the issuer's performance.	Yes	Independent Non-executive Directors are well aware of their functions and have actively performed such functions. The Audit Committee is made up of all three Independent Non-executive Directors. It reviews the Group's performance and the quarterly, interim and final results announcements in the four quarterly regular Audit Committee meetings
A.5.3 Every director should ensure that he can give sufficient time to the affairs of the issuer.	Yes	The attendance of all Board and Board committees has been excellent during the period from April 1, 2006 to March 31, 2007. All Executive Directors work full time for the Group and give their full attention to the businesses of the Group. All the Independent Non-executive Directors have given sufficient time to the affairs of the Group.

Code Provisions	Compliance	Actions by the Company
A.5.4 Directors must comply with their obligations under the Model Code set out in Appendix 10.	Yes	The Company has adopted a code of conduct regarding securities transactions of Directors and employees ("Securities Code") no less stringent than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules ("Model Code"). To ensure Directors' dealings in the securities of the Company (the "Securities") are conducted in accordance with the Model Code and Securities Code, a Director is required to notify the Chairman or Deputy Chairman in writing and obtain a written acknowledgement from the committee set up prior to any dealings in Securities. All Directors have confirmed, following specific enquiry by the Company, that they have fully complied with the Model Code and Securities Code throughout the period from April 1, 2006 to March 31, 2007.

Compliance with Recommended Best Practice

Directors disclose their other directorship at the time of appointment and, subsequently, at least once every year to the Company.

There were excellence attendances and active participations at Board, Board committee and general meetings by the Directors.

During the year, the following Board and Board committee meetings were held. The attendance record of each director at the aforesaid meetings is set out below:

Directors	Board Meeting	Audit Committee Meeting	Remuneration Committee Meeting
Executive Directors			
Mr. Cheng Chung Hing (Chairman)	4/4	N/A	1/1
Mr. Cheng Tai Po (Deputy Chairman)	4/4	N/A	1/1
Mr. Yan Sau Man, Amy	4/4	N/A	1/1
Independent Non-executive Directors			
Mr. Lee Kang Bor, Thomas	4/4	6/6	1/1
Mr. Kiu Wai Ming, Kenneth	4/4	6/6	1/1
Mr. Lau Chi Wah, Alex	4/4	6/6	1/1

The Independent Non-executive Directors had during the year contributed at the Board and the Board committees their constructive and valuable advices to the Company in the development of the Company's strategy and policies, in particular on the areas of compliance of regulatory and statutory requirement, internal control and risk management.

A.6 *Supply of and access to information*

Principle of the Code

Directors should be provided in a timely manner with appropriate information in such form and of such qualify as will enable them to make an informed decision and to discharge their duties and responsibilities as directors of an issuer.

Code Provisions	Compliance	Actions by the Company
A.6.1 Agenda and accompanying board papers should be sent in full to all directors in a timely manner and at least 3 days before the intended date of a board or board committee meetings (or such other period as agreed).	Yes	Agenda and Board papers were sent to all Directors at least three (3) days (generally seven (7) days) before the meetings to ensure that they have sufficient time to review the papers and are adequately prepared for the meeting.
A.6.2 Management has an obligation to supply the board and its committees with adequate information in a timely manner to enable it to make informed decisions. The board and each director should have separate and independent access to the issuer's senior management.	Yes	Senior management work closely with the Board and meet with the Board members, including Independent Non-executive Directors on regular basis. They are required to submit to the Board on a regular basis reports on the Company's operations they are responsible for the Board to make informed decisions.
A.6.3 All directors are entitled to have access to board papers. Steps must be taken to respond as promptly and fully as possible.	Yes	Properly signed Board papers and minutes are kept by the Company Secretary and are available for inspection by Directors at short notice. All Directors are entitled to have access to senior management who will respond to queries raised by the Directors promptly.

B. Remuneration of Directors and Senior Management

B.1 The level and make-up of remuneration and disclosure

Principle of the Code

An issuer should disclose information relating to its directors' remuneration policy and other remuneration related matters. There should be a formal and transparent procedure for setting policy on executive directors' remuneration and for fixing the remuneration packages for all directors. No director should be involved in deciding his own remuneration.

Code Provisions	Compliance	Actions by the Company
B.1.1 Issuer should establish a remuneration committee with specific written terms of reference which deal clearly with its authority and duties. A majority of the members of the remuneration committee should be independent non-executive directors.	Yes	A Remuneration Committee has been established by the Board with specific written terms of reference and a majority of the members of the committee are Independent Non-executive Directors. The duties of the Remuneration Committee include: — determining the policy for the remuneration of the Company; — approving the terms of service contracts; — ensuring the remuneration offered is appropriate for the duties and in line with market practice.
B.1.2 The remuneration committee should consult the chairman and/or chief executive officer about their proposals relating to the remuneration of other executive directors and have access to professional advice if considered necessary.	Yes	Resolutions in writing have been passed by all members of the Remuneration Committee in April 25, 2006 in respect of the grant of performance bonus of Executive Directors and the senior management of the Company for the year ended March 31, 2006 and their salary review for the year ended March 31, 2007.
B.1.3, B.1.4 & B.1.5 The terms of reference of the remuneration committee should include the specific duties as stipulated in B.1.3 of Appendix 14 to the Listing Rules. The remuneration committee should make available its terms of reference, explaining its role and the authority delegated to it by the board. The remuneration committee should be provided with sufficient resources to discharge its duties.	Yes	The terms of reference of the Remuneration Committee are set out in writing with adoption of the specific duties as provided in B.1.4 of Appendix 14 to the Listing Rules. It is made available upon request. The Company will pay for all professional advice and other assistance as required by the Remuneration Committee.

Compliance with Recommended Best Practice

Details of remuneration of the Chairman, the Deputy Chairman and the Executive Director and the Independent Non-executive Directors are disclosed on an individual basis in this Annual Report.

C. Accountability and Audit

C.1 Financial Reporting

Principle of the Code

The board should present a balanced, clear and comprehensible assessment of the company's performance, position and prospects.

Code Provisions	Compliance	Actions by the Company
C.1.1 Management should provide such explanation and information to the board as will enable the board to make an informed assessment of the financial and other information put before the board for approval.	Yes	The management is required to provide detailed report and explanation to enable the Board to make an informed assessment before approval, and has followed such a practice throughout the years.
C.1.2 The directors should acknowledge in the Corporate Governance Report their responsibility for preparing the accounts, and there should be a statement by the auditors about their reporting responsibilities in the auditors' report on the financial statements.	Yes	Company's Directors and auditors have acknowledged and stated their respective responsibilities on preparation of accounts and issue of auditors' report.
C.1.3 The board's responsibility to present a balanced, clear and understandable assessment extends to annual and quarterly reports, other price-sensitive announcements and other financial disclosures required under the Listing Rules, and reports to regulators as well as to information required to be disclosed pursuant to statutory requirements.	Yes	The Board has presented a balanced, clear and understandable assessment of the Company's position to its shareholders and the public in all its reports and public announcements.

C.2 *Internal Control*

Principle of the Code

> The board should ensure that the issuer maintains sound and effective internal controls to safeguard the shareholders' investment and the issuer's assets.

Code Provisions	Compliance	Actions by the Company
C.2.1 The directors should at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its subsidiaries and report to shareholders that they have done so in their Corporate Governance Report. The review should cover all material controls, including financial, operational and compliance controls and risk management functions.	Yes	The Board has overall responsibility for the system of internal controls and for reviewing its effectiveness. Management is charged with the responsibility to design and implement an appropriate internal control system. The internal audit department ("IA Department") is responsible for internal audit function of the Group and monitors the internal control procedures and systems and reports its findings and recommendations, if any, to the Audit Committee on a quarterly basis. During the year ended March 31, 2007, the IA Department adopted a risk-based approach focusing on processes and controls that were material. No material or significant control weaknesses were discovered. The Board, through the Audit Committee, had reviewed the effectiveness of the system of internal control of the Group which covered all material controls, including financial, operational and compliance controls and risk management functions and is satisfied that the Group in the financial year ended March 31, 2007 fully complied with the code provision on internal control as set out in the Code.

C.3 Audit Committee

Principle of the Code

The board should establish formal and transparent arrangement for considering how it will apply the financial reporting and internal control principles and for maintaining an appropriate relationship with the company's auditors. The audit committee established by an issuer pursuant to the Listing Rules should have clear terms of reference.

Code Provisions	Compliance	Actions by the Company
C.3.1 Full minutes of audit committee should be kept by a duly appointed secretary of the meeting. Draft and final versions of minutes of the audit committee should be sent to all members of the committee for their comment and records respectively, in both cases within a reasonable time after the meeting.	Yes	Minutes prepared by the Company Secretary as secretary of the meeting were sent to members of the Audit Committee for comments and amendments, and final versions were sent for their approval and signature within a reasonable time of each meeting. Full minutes are kept by the Company Secretary.
C.3.2 A former partner of the issuer's existing auditing firm should be prohibited from acting as a member of the issuer's audit committee for one year after he ceases to be a partner of or to have any financial interest in the firm, whichever is the later.	Yes	The Audit Committee does not have any member who was appointed as a member of the committee within one year after he ceases to be a partner of the Group's existing auditing firm and none of the committee members has any financial interest in the audit firm.
C.3.3 The terms of reference of the audit committee should include at least the following duties: (a) review of relationships with issuer's auditors; (b) review of financial information of the issuer; and (c) oversight of the issuer's financial reporting system and internal control procedures.	Yes	The terms of reference of the Audit Committee covers the mentioned scope of duties stated in this provision of the Code. The auditors have kept the Audit Committee members up to date on the recent changes made to the Hong Kong Financial Reporting Standards.
C.3.4 The audit committee should make available its terms of reference, explaining its role and the authority delegated to it by the board.	Yes	The terms of reference of the Audit Committee are available upon request.

Code Provisions	Compliance	Actions by the Company
C.3.5 Where the board disagrees with the audit committee's view on the selection, appointment, resignation or dismissal of the external auditors, the issuers should include in the Corporate Governance Report a statement from the audit committee. The audit committee should make available its terms of reference, explaining its recommendation and also the reason(s) why the board has taken a different view.	Yes	There was no disagreement on the selection and appointment of external auditors.
C.3.6 The audit committee should be provided with sufficient resources to discharge its duties.	Yes	The Company has provided sufficient assistance and resources as required by the Audit Committee.

The Audit Committee holds regular meetings at least four times a year and organizes additional meetings if and when necessary. There were six Audit Committee meetings held during the year ended March 31, 2007. The following is a summary of works performed by the Audit Committee during the year:

(i) reviewed the financial reports for the year ended March 31, 2006, for the three months ended June 30, 2006, for the six months ended September 30, 2006 and for the nine months ended December 31, 2006;

(ii) reviewed quarterly internal audit reports by the IA Department in respect of the Group's internal control system and procedures, its effectiveness and the regular updates on key risk areas of financial control;

(iii) discussed and approved the plan and timetable for internal control review;

(iv) reviewed the effectiveness of the internal control system;

(v) reviewed and approved the manual of rules, regulations and procedures of the IA Department;

(vi) reviewed the compliance of the People's Republic of China incorporated entities of the Group in accordance with the laws and regulations of People's Republic of China; and

(vii) reviewed the independence of the external auditors and given approval of its engagement letters and audit fee estimate for 2006/07.

D. Delegation by the Board

D.1 Management functions

Principle of the Code

An issuer should have formal schedule of matters specifically reserved to the board for its decision. The board should give clear directions to management as to the matters that must be approved by the board before decisions are made on behalf of the issuer.

Code Provisions	Compliance	Actions by the Company
D.1.1 When the board delegates aspects of its management and administration functions to management, it must at the same time give clear directions as to the powers of management.	Yes	The segregation of duties and responsibilities between the Board and the management has been clearly defined and provided as internal guidelines of the Company.
D.1.2 An issuer should formalize the functions reserved to the board and those delegated to management.	Yes	The duties of the Board include: — formulating operational strategies and management policy and establishing corporate governance and internal control system; — setting the objective of management; and — monitoring performance of management. The duties of the management include: — reviewing the business performance; — ensuring adequate fundings and cashflows for its operations; and — monitoring performance of the various divisions and departments of the Group.

D.2 Board Committees

Principle of the Code

Board committees should be formed with specific written terms of reference which deal clearly with the committees' authority and duties.

The Board has established an Audit Committee and a Remuneration Committee, with defined terms of reference. The terms of reference of the Board committees are available upon request.

The Board committees are provided with sufficient resources to discharge their duties and, upon request, and through a decision of the Board, can seek independent professional advice, at the Company's expense.

Code Provisions	Compliance	Actions by the Company
D.2.1 Board committees are established with sufficiently clear terms of reference.	Yes	The Board has established two Board committees with specific terms of reference.
D.2.2 The terms of reference of board committees should require such committees to report back to the board.	Yes	Board committees would report to the Board their work, findings and recommendations in Board meeting.

E. Communication with Shareholders

E.1 Effective Communication

Principle of the Code

The board should endeavour to maintain an on-going dialogue with shareholders and in particular, use annual general meetings or other general meetings to communicate with shareholders and encourage their participation.

Code Provisions	Compliance	Actions by the Company
E.1.1 A separate resolution should be proposed by the chairman of a general meeting for substantially separate issue.	Yes	Separate resolutions are proposed at the meeting on each substantially separate issue.

Code Provisions	Compliance	Actions by the Company
E.1.2 The chairman of the board should attend the annual general meeting and arrange for the chairman of the audit, and remuneration committees (as appropriate) or in the absence of the chairman of such committees, another member of the committee or failing this his duty appointed delegate, to be available to answer questions at any general meeting. The chairman of the independent board committee (if any) should also be available to answer questions at any general meeting to approve connected transaction or any other transaction that is subject to independent shareholders' approval.	Yes	The Chairman of the Board attended the annual general meeting of the Company ("2006 AGM") held on August 3, 2006. The chairmen of the Audit Committee and Remuneration Committee also attended the AGM to make themselves available to answer questions raised at the meeting.

E.2 Voting by Poll

Principle of the Code

The issuer should regularly inform shareholders of the procedure for voting by poll and ensure compliance with the requirements about voting by poll contained in the Listing Rules and the constitutional documents of the issuer.

Code Provisions	Compliance	Actions by the Company
E.2.1 to E.2.3 Disclosure in the issuer's circulars to shareholders of the procedures for and the rights of shareholders to demand a poll. The issuer should ensure that votes cast are properly counted and recorded. The chairman of a meeting should at the commencement of the meeting ensure that the procedures for demanding a poll by shareholders and the detailed procedures for conducting a poll are explained.	Yes	Rights of shareholders and procedures to demand a poll were clearly set out in the circular accompanying the notice of 2006 AGM distributed to all shareholders on the shareholders' register. These procedures were also explained during the proceedings of the 2006 AGM. At the 2006 AGM, votes cast were properly counted and recorded.

Auditors' Remuneration

The Group's independent external auditors are Moores Rowland, Chartered Accountants, Certified Public Accountants. The statement of the auditors about their reporting responsibilities on the financial statements of the Group is set out in the Report of Independent Auditors of this Annual Report.

During the year, the Group has engaged Moores Rowland on various services which are listed as follows:

(i) **Audit services** — audit services provided in connection with the audit of the consolidated financial statements;

(ii) **Other services** — audits or reviews to assess compliance with the disclosure requirements of notifiable transactions or contracts, etc;

(iii) **Taxation related services** — tax compliance services including reply to tax enquiries, except for those services which are provided in connection with the audit.

The Group uses the services of the external auditors where they are best suited.

The remuneration for the audit and non-audit services provided by Moores Rowland to the Group during the year ended March 31, 2007 was as follows:

Type of services	Amount HK$'000
Audit	762
Non-audit	
Taxation	90
Other services	216
Total:	1,068

Information Disclosure and Investor Relations

The Company adheres to high standards with respect to the disclosure of its financial statements. The Company strengthens its communications with shareholders through various channels including publication of interim and annual reports, press release and announcements of the latest development of the Company in its corporate website in a timely manner. The annual general meeting provides an opportunity for shareholders to exchange views with the Board. The Chairman of the Company and the Chairmen of Audit Committee and Remuneration Committee had attended the 2006 AGM of the Company held on August 3, 2006 to answer shareholders' questions.

Resolutions were proposed at 2006 AGM on each substantial separate issue, including the election of individual directors.

Details of the poll voting procedures and rights of shareholders to demand a poll have been included in the circular to shareholders dispatched together with the 2006 annual report. Details of the proposed resolutions have also been set out in the circular.

The Group has voluntarily adopted a quarterly reporting practice since its listing on the Stock Exchange in 1997. Such a practice has improved the Group's transparency in its management, business operations and financial positions and helped to keep shareholders, potential investors and the general public up to date on the business development and results of the Group. The public are welcomed to give their comments and make their enquiries through the Company's website and the management always providing their prompt responses.

Director's Responsibility in Respect of Financial Statements

The Board is responsible for preparing the financial statements of the Group and the external auditors are responsible for reporting in the auditors' report on the financial statements of the Group. The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. The Company aims to present a clear and balanced assessment of its financial position and prospects. The Board must ensure that the financial statements for the Group are prepared so as to give a true and fair view of the financial status of the Group. Audited financial statements are published within three months after the end of the financial year.

The reporting responsibilities of the Directors and external auditors are further set out in the Auditors' Report in this Annual Report.

For the announcement relating to the price-sensitive information and other financial disclosures required under the Listing Rules are disclosed pursuant to statutory requirements.

Management Meetings

Executive Directors and the Senior Management regularly meet together to reviewing, discussing and making decisions on financial and operational matters. These meetings, chaired by the Chairman, enhance and strengthen departmental communications and cooperation within the Group.

Incentive Scheme and Corporate Culture

The Company maintains an employee handbook providing guidance to employees on matters such as employee dealings on the Company's securities, ethical standards, business conduct and employees conduct. The employee handbook applies to all employees of the Group who are required strict compliance with the policies therein. Through the establishment of a performance charter for the Senior Management, appropriate appraisal mechanisms, and the granting of share options, the Company has been able to align the interests of the Senior Management and entire staff with the growth and performance of the Company. The Company pays particular attention to the establishment of an optimal corporate culture. With the support of all staff, the Company has identified, designed and implemented a corporate culture that is considered appropriate for its special circumstances, thereby ensuring that good corporate governance is maintained at all levels and at all times within the Group.

Directors' Report

The Directors present this Directors' Report (the "Report") together with the audited financial statements of the Group for the year ended March 31, 2007.

Principal Activities

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

Results and Appropriations

The results of the Group for the year ended March 31, 2007 are set out in the consolidated income statement on page 52 of this Annual Report.

The Board recommended the payment of a final dividend of HK3 cents (2006: Nil) per share for the year ended March 31, 2007 subject to the shareholders' approval in the annual general meeting of the Company to be held on August 1, 2007. Approximately HK$30,112,000 will be payable on or before August 15, 2007 to the shareholders of the Company whose names appear on the register of members on August 1, 2007.

Investment Properties

Details of movements in investment properties of the Group during the year are set out in note 14 to the financial statements.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group during the year are set out in note 15 to the financial statements.

Distributable Reserves

The distributable reserves of the Company as at March 31, 2007 calculated under Companies Act of Bermuda amounted to HK$210,540,000.

Reserves

Details of the movements in reserves of the Company during the year are set out in note 28 to the financial statements.

Share Capital

Details of the movements on share capital of the Company are set out in note 26 to the financial statements.

Donations

Donations made by the Group during the year amounted to HK$50,000.

Five-year Financial Summary

A five-year financial summary of the Group is set out on page 100.

Directors and Directors' Service Contracts

The directors of the Company during the year and up to the date of the Report were:

Executive Directors
Mr. Cheng Chung Hing *(Chairman)*
Mr. Cheng Tai Po *(Deputy Chairman)*
Ms. Yan Sau Man, Amy

Independent Non-executive Directors
Mr. Lee Kang Bor, Thomas
Mr. Kiu Wai Ming, Kenneth
Mr. Lau Chi Wah, Alex

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

Directors' Service Agreement

Each of the Executive Directors has entered into a service agreement with the Company for a fixed term of three years from September 1, 2006 until terminated by not less than three months' notice in writing served by either party giving to the other.

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

Directors' Interests in Contracts

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

Connected Transactions

During the year, the Group sold jewellery products amounting to HK$600,000 and charge back staff cost of HK$568,000 to China South International Industrial Materials City (Shenzhen) Co., Ltd., a company in which Messrs. Cheng Chung Hing and Cheng Tai Po, Directors, have beneficial interests.

During the year, rental charges paid to China South City Holdings Limited during the year amounted to HK$229,000. Both Messrs. Cheng Chung Hing and Cheng Tai Po, Directors, have beneficial interests in China South City Holdings Limited.

Specific Performance Obligations of the Controlling Shareholder

No specific performance obligations of the controlling shareholder are required to be disclosed under paragraph 13.18 of Chapter 13 of the Listing Rules.

Share Options

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

Details of the movement of the share options granted under the Share Option Scheme during the year are set out below:

					No of share options					
Grantees	Date of grant	Exercisable period	Vesting period	Exercise price *HK$*	Balance at April 1, 2006	Granted during the year	Exercised during the year	Lapsed during the year	Balance at March 31, 2007	Notes
Directors										
Mr. Cheng Chung Hing	May 2, 2006	May 2, 2006 to May 1, 2012	Nil	0.253	—	1,000,000	—	—	1,000,000	(1), (3)
Mr. Cheng Tai Po	May 2, 2006	May 2, 2006 to May 1, 2012	Nil	0.253	—	1,000,000	—	—	1,000,000	(1), (3)
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), (3)
					—	12,000,000	—	—	12,000,000	
Other Employees	May 2, 2006	May 2, 2006 to May 1, 2012	Nil	0.253	—	36,000,000	(3,000,000)	(10,000,000)	23,000,000	(1), (2), (3)
	September 18, 2006	September 18, 2006 to September 17, 2011	Nil	0.233	—	20,000,000	—	—	20,000,000	(1), (3)
	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), (3)
					—	61,000,000	(3,000,000)	(10,000,000)	48,000,000	
					—	73,000,000	(3,000,000)	(10,000,000)	60,000,000	

Note:

(1) These share options represent personal interest held as beneficial owner.

(2) The weighted average closing price of the shares of the Company immediately before the date of the exercise of the share options was HK$0.35.

(3) 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 of these share options as additional share capital and the Company will record the excess of the exercise price of the share options over the 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.

Directors' Interests in Securities

As at March 31, 2007, the interests of each Director and chief executive of the Company in the equity or debt securities of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance ("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 for Securities Transactions by Directors of Listed Companies (the "Model Code") to be notified to the Company and the Stock Exchange were as follows:

(a) Ordinary shares of the Company

		Number of ordinary shares of HK$0.10 each held			Percentage of the issued share capital of the Company
Name of director	**Capacity**	**Direct interest**	**Deemed interest** *(Note 1)*	**Total interest**	
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	106,825,273	494,406,000	601,231,273	59.90%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	76,086,179	494,406,000	570,492,179	56.84%

Note 1: These shares were indirectly owned by (a) Man Sang Holdings, Inc. ("MSH"), a company incorporated in the State of Nevada, the United States of America and (b) Cafoong Limited ("Cafoong"), a company incorporated in the British Virgin Islands. Both MSH and Cafoong held their interest in shares of the Company, through an indirect interest in Man Sang International (B.V.I.) Limited ("MSBVI"), a company incorporated in the British Virgin Islands which directly holds these 494,406,000 shares. Cafoong indirectly holds 100% equity interest in MSBVI through MSH, in which Cafoong holds 53.86% of the common stock and all the Series A preferred stock at March 31, 2007, which totally represent 71.07% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po own 60% and 40% of the issued share capital of Cafoong, respectively.

(b) **Common stock in an associated corporation — MSH**

Name of director	Capacity	Numbers of shares of common stock of US$0.001 each in MSH held: Direct interest	Deemed interest (Note 2)	Total interest	Percentage of common stock of MSH
Mr. Cheng Chung Hing	Beneficial owner and interest of a controlled corporation	312,500	3,437,501	3,750,001	58.75%
Mr. Cheng Tai Po	Beneficial owner and interest of a controlled corporation	—	3,437,501	3,437,501	53.86%

Note 2: *These shares were directly and indirectly owned by Cafoong. Cafoong holds 53.86% of the common stock and all the Series A preferred stock of MSH at March 31, 2007, which totally represent 71.07% of the voting rights of MSH. Messrs. Cheng Chung Hing and Cheng Tai Po owned 60% and 40% of the issued share capital of Cafoong, respectively.*

All interests stated above represent long positions.

Save as disclosed above and under the section headed "Share Options" as at March 31, 2007, none of the Directors and the chief executives of the Company had any interest and short positions in the shares, underlying shares, or the equity interest and debentures 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); (b) were required, pursuant to section 352 of the SFO, to be entered in the register referred therein; or (c) were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange.

Arrangements to Purchase Shares or Debentures

Save as disclosed under the section headed "Directors' Interests in Securities" above, at no time during the year was the Company, its subsidiaries, its holding companies, or any subsidiaries of its holding companies, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the directors nor the chief executive, nor any of their spouses or children under the age of 18, had any right to subscribe for the securities of the Company, or had exercised any such right.

Substantial Shareholders

As at March 31, 2007, the interests of those persons in the share capital of the Company as recorded in the register kept under Section 336 of the SFO were as follow:

Name of shareholder	Capacity	Number of shares held Direct interest	 Deemed interest	Percentage of issued share capital of the Company	Notes
MSBVI	Beneficial owner	494,406,000	—	49.26%	
MSH	Interests of a controlled corporation	—	494,406,000	49.26%	1
Cafoong	Interests of a controlled corporation	—	494,406,000	49.26%	2

Notes:

1. *This represented the deemed interest in 494,406,000 shares in the Company held by MSBVI which is a wholly-owned subsidiary of MSH.*

2. *This represented the deemed interest in 494,406,000 shares in the Company held by MSBVI whereby Cafoong together with its wholly owned subsidiaries directly and indirectly holds 53.86% of the common stock and all of the Series A preferred stock of MSH at March 31, 2007, represented 71.07% of the voting rights of MSH.*

Save as disclosed above, as at March 31, 2007, the Company has not been notified of any person or entity had an interest or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

Model Code for Securities Transactions by Directors of Listed Issuers

The Company has adopted the Model Code as set out in Appendix 10 of the Listing Rules for securities transaction by the Directors. Having made specific enquiries with all the Directors, the Company confirmed that all the Directors have complied with the required standard as set out in the Model Code throughout the year ended March 31, 2007.

Independence of Independent Non-executive Directors

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

Audit Committee

The audit committee, which comprises three Independent Non-executive Directors of the Company, has reviewed with the management in conjunction with the Auditors, the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters including the review of audited consolidated financial statements of the Group for the year ended March 31, 2007.

Public Float

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

Pre-Emptive Rights

No pre-emptive rights exist in Bermuda being the jurisdiction in which the Company is incorporated.

Auditors

The auditors, Messrs Moores Rowland Mazars have changed their name to Moores Rowland on June 1, 2007 and amalgamated their practice with Grant Thornton. As a result of this change, a resolution will be proposed at the forthcoming annual general meeting to authorize the Board to appoint Grant Thornton as auditors of the Company and to fix their remuneration.

Purchase, Redemption or Sale of Listed Securities

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended March 31, 2007.

Corporate Governance

Maintaining high standards of corporate governance has always been one of the Company's priorities. This is achieved through an effective, timely disclosure of information by the Board and a pro active investor relations programme. The Board believed that the Company has during the year complied with the code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except that (i) Independent Non-executive Directors have not been appointed for any specific terms, however, they are subject to retirement and eligible for re-election in annual general meeting in accordance with the Bye-Laws of the Company; and (ii) Mr. Cheng Chung Hing assumes both the roles of the Chairman and Chief Executive Officer of the Group.

On behalf of the Board

CHENG Chung Hing
Chairman
Hong Kong, June 28, 2007

Report of Independent Auditors

Moores Rowland
摩斯倫 會計師事務所

To the members of
Man Sang International Limited
(incorporated in Bermuda with limited liability)

We have audited the financial statements of Man Sang International Limited ("the Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 52 to 99, which comprise the consolidated and the Company's balance sheet as at March 31, 2007, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group as at March 31, 2007 and of its profit and cash flows of the Group for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Moores Rowland
Chartered Accountants
Certified Public Accountants
Hong Kong, June 28, 2007

Consolidated Income Statement

For the year ended March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Turnover	4	**398,279**	378,297
Cost of sales		**(285,580)**	(272,443)
Gross profit		**112,699**	105,854
Investment income	6	**10,825**	7,672
Other operating income	7	**28,250**	4,756
Selling expenses		**(8,479)**	(8,407)
Administrative expenses		**(78,815)**	(66,373)
Increase in fair value of investment properties		**1,957**	40
Net unrealized gain on financial assets at fair value through profit or loss		**728**	3,274
Profit before taxation	8	**67,165**	46,816
Taxation	10	**(7,214)**	(3,836)
Profit for the year	11	**59,951**	42,980
Dividends	12	**30,112**	—
Earnings per share	13		
Basic		**5.99 cents**	4.29 cents
Diluted		**5.88 cents**	N/A

Consolidated Balance Sheet

At March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Investment properties	*14*	**96,820**	94,863
Property, plant and equipment	*15*	**109,104**	103,056
Prepaid land lease payments	*16*	**31,266**	32,030
Interest in an associate	*17*	**86,587**	1,692
Deferred tax assets	*19*	**4,071**	5,100
		327,848	236,741
Current assets			
Inventories	*20*	**46,195**	55,870
Trade and other receivables	*21*	**69,237**	58,453
Financial assets at fair value through profit or loss	*22*	**8,350**	15,560
Tax receivable		**1,620**	1,451
Cash and cash equivalents	*23*	**296,426**	286,580
		421,828	417,914
Current liabilities			
Trade and other payables	*24*	**39,872**	33,269
Taxation		**154**	—
		40,026	33,269
Net current assets		**381,802**	384,645
Total assets less current liabilities		**709,650**	621,386
Non-current liabilities			
Due to immediate holding company	*25*	**17,916**	2,095
Deferred tax liabilities	*19*	**12,690**	10,866
		30,606	12,961
Net assets		**679,044**	608,425
Capital and reserves			
Share capital	*26*	**100,374**	100,074
Reserves		**548,558**	508,351
Proposed final dividend		**30,112**	—
		578,670	508,351
		679,044	608,425

The financial statements on pages 52 to 99 were approved and authorized for issue by the Board of Directors on June 28, 2007 and are signed on its behalf by:

Cheng Chung Hing
Executive Director

Cheng Tai Po
Executive Director

Balance Sheet

At March 31, 2007

	Note	2007 HK$'000	2006 HK$'000
Non-current assets			
Interest in subsidiaries	*18*	**357,826**	340,958
Deferred tax assets	*19*	**9**	530
		357,835	341,488
Current assets			
Other receivables		**317**	237
Financial assets at fair value through profit or loss	*22*	**8,350**	15,560
Tax receivable		**364**	—
Cash and cash equivalents	*23*	**379**	6,815
		9,410	22,612
Current liability			
Other payables		**436**	567
Net current assets		**8,974**	22,045
Net assets		**366,809**	363,533
Capital and reserves			
Share capital	*26*	**100,374**	100,074
Reserves		**236,323**	263,459
Proposed final dividend		**30,112**	—
	28	**266,435**	263,459
		366,809	363,533

The financial statements on pages 52 to 99 were approved and authorized for issue by the Board of Directors on June 28, 2007 and are signed on its behalf by:

Cheng Chung Hing
Executive Director

Cheng Tai Po
Executive Director

Consolidated Statement of Changes in Equity

For the year ended March 31, 2007

	Share capital HK$'000	Share premium HK$'000	Other non-distributable reserve HK$'000	Share option reserve HK$'000	Other property revaluation reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
The Group								
Balance at April 1, 2005	90,977	59,938	1,801	—	23,969	4,563	371,767	553,015
Revaluation increase on leasehold land and buildings	—	—	—	—	12,973	—	—	12,973
Deferred tax liabilities arising on revaluation of leasehold land and buildings	—	—	—	—	(2,245)	—	—	(2,245)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	1,702	—	1,702
Net income directly recognized in equity	—	—	—	—	10,728	1,702	—	12,430
Capitalization on bonus issue of shares	9,097	(9,097)	—	—	—	—	—	—
Release on depreciation of leasehold land and buildings	—	—	—	—	(946)	—	946	—
Profit for the year	—	—	—	—	—	—	42,980	42,980
Balance at March 31, 2006	100,074	50,841	1,801	—	33,751	6,265	415,693	608,425

	Share capital HK$'000	Share premium HK$'000	Other non-distributable reserve HK$'000	Share option reserve HK$'000	Other property revaluation reserve HK$'000	Translation reserve HK$'000	Retained profits HK$'000	Total HK$'000
The Group								
Balance at April 1, 2006	100,074	50,841	1,801	—	33,751	6,265	415,693	608,425
Revaluation increase on leasehold land and buildings	—	—	—	—	4,583	—	—	4,583
Deferred tax liabilities arising on revaluation of leasehold land and buildings	—	—	—	—	(806)	—	—	(806)
Exchange differences arising from translation of financial statements of overseas operations	—	—	—	—	—	815	—	815
Net income directly recognized in equity	—	—	—	—	3,777	815	—	4,592
Issue of new shares upon exercise of share options	300	676	—	(217)	—	—	—	759
Share options granted	—	—	—	5,317	—	—	—	5,317
Share options lapsed	—	—	—	(722)	—	—	722	—
Release on depreciation of leasehold land and buildings	—	—	—	—	(1,061)	—	1,061	—
Profit for the year	—	—	—	—	—	—	59,951	59,951
Balance at March 31, 2007 *(Note)*	**100,374**	**51,517**	**1,801**	**4,378**	**36,467**	**7,080**	**477,427**	**679,044**

Other non-distributable reserve was arising from the transactions under corporate reorganization in 1997.

The Group's retained profits included an amount of HK$9,852,000 *(2006: HK$9,852,000)* reserved by the subsidiaries in the People's Republic of China (the "PRC") in accordance with the relevant PRC regulations, this reserve is only distributable in the event of liquidation of these PRC subsidiaries.

Note: A proposed final dividend of HK$30,112,000 was included in the balance at March 31, 2007.

Consolidated Cash Flow Statement

For the year ended March 31, 2007

	2007 HK$'000	2006 HK$'000
OPERATING ACTIVITIES		
Profit before taxation	**67,165**	46,816
Adjustments for:		
Interest income	**(8,989)**	(6,674)
Depreciation of property, plant and equipment	**7,017**	6,543
Amortization of prepaid land lease payments	**764**	764
Share-based payment expenses	**5,317**	—
Increase in fair value of investment properties	**(1,957)**	(40)
Revaluation increase on buildings	**(182)**	(81)
Loss (Gain) on disposal of property, plant and equipment	**399**	(1)
Net unrealized gain on financial assets at fair value through profit or loss	**(728)**	(3,274)
Gain on disposal of financial assets at fair value through profit or loss	**(1,467)**	(706)
Dividends received	**(369)**	(292)
Allowance for bad and doubtful debts	**1,551**	286
Operating cash flows before movements in working capital	**68,521**	43,341
Decrease in inventories	**10,182**	27,473
Increase in trade and other receivables	**(12,207)**	(4,057)
Increase in trade and other payables	**6,374**	2,508
Cash generated from operations	**72,870**	69,265
Hong Kong Profits Tax paid, net	**(4,596)**	(8,936)
Overseas tax paid	**(586)**	(72)
Net cash from operating activities	**67,688**	60,257

	Note	2007 HK$'000	2006 HK$'000
INVESTING ACTIVITIES			
Purchases of property, plant and equipment		**(8,893)**	(6,742)
Purchases of financial assets at fair value through profit or loss		**—**	(5,051)
Proceeds from disposal of property, plant and equipment		**268**	915
Proceeds from disposal of financial assets at fair value through profit or loss		**9,405**	1,893
Advance to an associate		**(84,895)**	(1,692)
Dividends received		**369**	292
Interest received		**8,989**	6,674
Net cash used in investing activities		**(74,757)**	(3,711)
FINANCING ACTIVITIES			
Issue of new shares		**759**	—
Increase (Decrease) in advance from immediate holding company		**15,821**	(150)
Net cash generated from (used in) financing activities		**16,580**	(150)
Net increase in cash and cash equivalents		**9,511**	56,396
Cash and cash equivalents at beginning of year		**286,580**	229,350
Effect of foreign exchange rate changes		**335**	834
Cash and cash equivalents at end of year	*23*	**296,426**	286,580

Notes to the Financial Statements

For the year ended March 31, 2007

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, a company which is incorporated in the British Virgin Islands. The shares of the Company's intermediate holding company, Man Sang Holdings, Inc., are listed on the American Stock Exchange, the United States.

The Company acts as an investment holding company. The Group is principally engaged in the purchasing, processing, assembling, merchandising and wholesale distribution of pearls and jewellery 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 issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the 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 certain new and revised HKFRSs which are generally effective for accounting periods beginning on or after January 1, 2006. 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. These policies have been consistently applied to all the years presented unless otherwise stated.

(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 carried 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 the cost of the property, plant and equipment 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 complete, at which time it is reclassified and subsequently accounted for as 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.

2. Significant Accounting Policies (Continued)

(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 that 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.

(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.

2. Significant Accounting Policies (Continued)

(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.

(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) Provisions, contingent liabilities and contingent assets

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation. All provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one of more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefit is remote.

(p) Financial guarantee contract

A financial guarantee contract is a contract that requires the issuer (or guarantor) to make specified payments to reimburse the holder for a loss it incurs because a specified debtors fails to make payment when due in accordance with the terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognized as deferred income within trade and other payables. Where consideration is received or receivable for the issuance of guarantee, the consideration is recognized in accordance with the Group's policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognized in the income statement on initial recognition of any deferred income.

2. Significant Accounting Policies (Continued)

(p) Financial guarantee contract (Continued)

The amount of the guarantee initially recognized as deferred income is amortized in the income statement over the term of the guarantee as income from financial guarantee issued. In addition, provisions are recognized if and when it becomes probable that the holder of the guarantee will call upon the Group under the guarantee and the amount of that claim on the Group is expected to exceed the current carrying amount, where appropriate.

(q) Revenue recognition

Revenue is recognized when it is probable that the economic benefits will flow to the Group 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.

(r) 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.

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

2. Significant Accounting Policies (Continued)

(s) Share-based payments

The cost of equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of the Company ("market conditions"), if applicable.

The cost of equity-settled transactions is recognized, together with a corresponding increase in equity, over the year in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date"). The cumulative expense recognized for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the number of awards that, in the opinion of the directors of the Company at that date, based on the best available estimate of the number of equity instruments that will ultimately vest.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied, provided that all other performance conditions are satisfied. Where the terms of an equity-settled award are modified, as a minimum, an expense is recognized as if the terms have not been modified. In addition, an expense is recognized for any increase in the value of the transaction as a result of the modification, as measured at the date of modification. Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognized for the award is recognized immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph. The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

At the time when the share options are exercised, the amount previously recognized in share option reserve will be transferred to share premium. When the share options are forfeited or are still not exercised at the expiry date, the amount previously recognized in share option reserve will be transferred to retained profits.

(t) 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.

2. Significant Accounting Policies (Continued)

(t) Foreign currency translation (Continued)

(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.

(u) 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 liabilities and assets 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.

(v) 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.

(w) 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;

2. Significant Accounting Policies (Continued)

(w) Related parties (Continued)

(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.

(x) Retirement benefits scheme

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

(y) 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.

(z) Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experiences and other factors, including expectation of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Fair value of leasehold land and buildings, and investment properties

The leasehold land and buildings, and investment properties of the Group were stated at fair value in accordance with the accounting policy stated in note 2(f) and 2(g) respectively. The fair value of the leasehold land and buildings, and the investment properties are determined by an independent professional valuer, BMI Appraisals Limited, and the fair value of the leasehold land and buildings, and investment properties are set out in notes 14 and 15 to the financial statements. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from actual results.

In making the judgement, reasonable consideration has been given to the underlying assumptions that are mainly based on market conditions existing at the balance sheet date. These estimates are regularly compared to actual market data and actual transactions in the market.

2. Significant Accounting Policies (Continued)

(z) Critical accounting estimates and judgements (Continued)

(ii) Net realizable value of inventories

Net realizable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market condition and the historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to severe industry cycles. Management reassesses these estimations at the balance sheet date to ensure inventories are shown at the lower of cost and net realizable value.

(iii) Impairment of trade receivables

The Group's management determines the provision for impairment of trade receivables on a regular basis. This estimate is based on the credit history of its customers and prevailing market conditions. Management reassesses the provision for impairment of trade receivables at the balance sheet date.

3. Changes in Accounting Policies

The HKICPA has issued certain new and revised HKFRSs that are effective for accounting periods beginning on or after January 1, 2006.

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.

Financial Guarantee Contracts (HKAS 39 and HKFRS 4 (amendment))

The amendments to HKAS 39 require an entity to account for certain financial guarantee contracts in accordance with that standard. To comply with the requirements of the amended HKAS 39, the Group has adopted a new accounting policy to recognize financial guarantee contracts. On initial recognition, these contracts are measured at fair value and they are subsequently stated at the higher of:

— the amount initially recognized less where appropriate, cumulative amortization recognized in accordance with the Group's revenue recognition policies; and

— the amount of the obligation under the contract, as determined in accordance with HKAS 37 — "Provision, Contingent Liabilities and Contingent Assets" ("HKAS 37").

Details of this new accounting policy are set out in note 2(p).

Prior to this new accounting policy, the Group disclosed the financial guarantees issued as contingent liabilities in accordance with HKFRS 4 "Insurance Contracts" and HKAS 37. Provisions for the Group's liabilities under the financial guarantee contracts were made when it was more likely than not that the guaranteed party would default and the Group would incur outflow of resources embodying economic benefits. This new accounting policy has been applied retrospectively to the extent that the financial guarantee contracts were in existence at April 1, 2006. (i.e. the date when HKAS 39 was initially adopted by the Group). The adoption of the amended HKAS 39 did not have any significant effect to the current and prior year's financial statements as the Group did not have financial guarantee contracts at March 31, 2007 and 2006. The Company had executed financial guarantee of HK$105,000,000 (*2006: HK$86,141,000*) to its subsidiaries at March 31, 2007. The directors consider adoption of this amendment would have no significant impact on the Company's financial statements.

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 and wholesale distribution of pearls and jewellery products.

Property investment — Leasing of properties.

Segment information about these businesses is presented below:

Income statement (For the year ended March 31, 2007)

	Pearls HK$'000	Property investment HK$'000	Consolidated HK$'000
Revenue			
External sales or rentals — included in turnover	398,279	—	398,279
— included in other operating income *(Note)*	22,461	4,225	26,686
	420,740	4,225	424,965
Results			
Segment results	62,164	(101)	62,063
Unallocated other operating income			13,562
Unallocated corporate expenses			(8,460)
Profit before taxation			67,165
Taxation			(7,214)
Profit for the year			59,951

Note: During the year, the directors considered the market conditions and decided to withdraw from certain categories of products. As such, the Group disposed of all inventories relating to this category of products for a total of HK$22,461,000 (2006: HK$Nil). These inventories had been fully written down in the previous years.

5. Business and Geographical Segments (Continued)

Balance sheet (At March 31, 2007)

	Pearls HK$'000	Property investment HK$'000	Consolidated HK$'000
Assets			
Segment assets	517,847	96,820	614,667
Interest in an associate	86,587	—	86,587
Unallocated corporate assets			48,422
Consolidated total assets			749,676
Liabilities			
Segment liabilities	37,591	2,013	39,604
Unallocated corporate liabilities			31,028
Consolidated total liabilities			70,632

Other information (For the year ended March 31, 2007)

	Pearls HK$'000	Property investment HK$'000	Corporate and others HK$'000	Consolidated HK$'000
Capital additions	8,893	—	—	8,893
Depreciation of property, plant and equipment	6,914	—	103	7,017
Amortization of prepaid land lease payments	8	—	756	764
Allowance for bad and doubtful debts	1,551	—	—	1,551
Increase in fair value of investment properties	—	1,957	—	1,957
Revaluation increase on buildings	—	—	182	182
Net unrealized gain on financial assets at fair value through profit or loss	—	—	728	728

5. Business and Geographical Segments (Continued)

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

	Pearls HK$'000	Property investment HK$'000	Consolidated HK$'000
Revenue			
External sales or rentals — included in turnover	378,297	—	378,297
— included in other operating income	—	3,362	3,362
	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 before taxation			46,816
Taxation			(3,836)
Profit for the year			42,980

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

5. Business and Geographical Segments (Continued)

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

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, 2007 HK$'000	Year ended March 31, 2006 HK$'000	**Year ended March 31, 2007 HK$'000**	Year ended March 31, 2006 HK$'000
Included in turnover:				
Hong Kong	**29,929**	38,436	**3,356**	5,380
North America	**114,076**	109,467	**11,213**	10,991
Europe	**60,949**	52,696	**6,000**	5,219
Germany	**94,066**	80,773	**8,027**	5,373
Japan	**36,900**	42,773	**4,282**	6,055
Other Asian countries	**42,403**	34,321	**4,911**	4,979
Others	**19,956**	19,831	**1,914**	2,179
	398,279	378,297	**39,703**	40,176
Included in other operating income:				
Hong Kong	**660**	782	**571**	693
North America	**22,461**	—	**22,461**	—
Other Asian countries	**3,565**	2,580	**(672)**	(2,810)
	26,686	3,362	**22,360**	(2,117)
			62,063	38,059
Unallocated other operating income			**13,562**	12,210
Unallocated corporate expenses			**(8,460)**	(3,453)
Profit before taxation			**67,165**	46,816

5. Business and Geographical Segments (Continued)

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	
	At March 31, 2007 HK$'000	At March 31, 2006 HK$'000	**Year ended March 31, 2007 HK$'000**	Year ended March 31, 2006 HK$'000
Hong Kong	**511,231**	515,238	**5,752**	1,533
PRC	**232,754**	132,866	**3,141**	5,209
	743,985	648,104	**8,893**	6,742

6. Investment Income

	2007 HK$'000	2006 HK$'000
Interest income	**8,989**	6,674
Dividends received from financial assets at fair value through profit or loss	**369**	292
Gain on disposal of financial assets at fair value through profit or loss	**1,467**	706
	10,825	7,672

7. Other Operating Income

	2007 HK$'000	2006 HK$'000
Rental income	**4,225**	3,362
Sale of obsolete inventories *(disclosed in Note 5)*	**22,461**	—
Gain on disposal of property, plant and equipment	**183**	1
Revaluation increase on buildings	**182**	81
Others	**1,199**	1,312
	28,250	4,756

8. Profit Before Taxation

	2007 **HK$'000**	2006 HK$'000
Profit before taxation has been arrived at after charging/(crediting):		
(a) Staff costs (including directors' emoluments):		
Salaries, wages and other benefits	**46,782**	43,573
Contributions to defined contribution retirement plans	**1,364**	901
Share-based payments	**5,317**	—
	53,463	44,474
(b) Other items		
Allowance for bad and doubtful debts	**1,551**	286
Auditors' remuneration	**852**	680
Costs of inventories recognized as expense	**285,580**	272,443
Provision for inventories	**7,327**	25,000
Depreciation of property, plant and equipment	**7,017**	6,543
Amortization of prepaid land lease payments	**764**	764
Loss (gain) on disposal of property, plant and equipment	**399**	(1)
Revaluation increase on buildings	**(182)**	(81)
Operating lease charges:		
Hire of motor vehicle	**229**	152
Premises	**3,334**	1,826
Rental income from investment properties under operating leases (net of outgoings of HK$299,000 *(2006: HK$253,000))*	**(3,926)**	(3,109)

9. 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$'000	Share-based payments HK$'000	2007 Total HK$'000
Executive:							
Mr. Cheng Chung Hing	—	3,000	—	12	1,188	72	4,272
Mr. Cheng Tai Po	—	3,000	600	12	63	72	3,747
Ms. Yan Sau Man, Amy	—	1,650	1,600	12	—	722	3,984
Independent non-executive:							
Mr. Lee Kang Bor, Thomas	144	—	—	—	—	—	144
Mr. Kiu Wai Ming, Kenneth	120	—	—	—	—	—	120
Mr. Lau Chi Wah, Alex	120	—	—	—	—	—	120
	384	7,650	2,200	36	1,251	866	12,387

	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$'000	Share-based payments HK$'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

9. Directors' and Employees' Remuneration (Continued)

(b) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, three *(2006: three)* were directors of the Company whose emoluments are set out in note 9(a) above. The emoluments of the remaining two *(2006: two)* individuals are as follows:

	2007	2006
	HK$'000	HK$'000
Salaries and other allowances	**1,391**	2,144
Retirement benefits contributions	**6**	12
Share-based payments	**815**	—
	2,212	2,156

The emoluments of the two individuals are within the following bands:

	No. of employees	
	2007	2006
HK$500,001 to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**—**	1

During the years ended March 31, 2007 and 2006, no emoluments were paid by the Group to the five highest paid individuals, including directors, as inducement to join or upon joining the Group or as compensation for loss of office. In addition, during the years ended March 31, 2007 and 2006, no director waived any emoluments.

10. Taxation

	2007 HK$'000	2006 HK$'000
Current tax:		
Hong Kong	**4,438**	5,730
PRC	**258**	172
	4,696	5,902
Under (Over) provision in prior year:		
Hong Kong	**10**	(6)
PRC	**461**	—
	471	(6)
Deferred tax:		
Current year	**2,047**	(2,060)
	7,214	3,836

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.

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

	2007 HK$'000	2006 HK$'000
Profit before taxation	**67,165**	46,816
Tax at the domestic income tax rate of 17.5% *(2006: 17.5%)*	**11,754**	8,193
Tax effect of expenses that are not deductible in determining taxable profit	**954**	871
Tax effect of income that is not taxable in determining taxable profit	**(7,734)**	(3,733)
Tax effect of utilization of tax loss not previously recognized	**(362)**	(1,136)
Tax effect of recognition of previously unrecognized tax losses	**—**	(530)
Tax effect of recognition of temporary difference not previously recognized	**1,786**	(221)
Tax effect of additional tax loss not recognized	**79**	23
Effect of different tax rates of subsidiaries operating in other jurisdictions	**153**	151
Under (Over) provision in prior year	**471**	(6)
Others	**113**	224
Tax expense for the year	**7,214**	3,836

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 loss of HK$2,800,000 *(2006: profit of HK$5,145,000)* which has been dealt with in the financial statements of the Company.

12. Dividends

	2007	2006
	HK$'000	HK$'000
Proposed final dividend - HK3 cents per share *(2006: Nil)*	**30,112**	—

A final dividend of HK3 cents (2006: Nil) per share has been recommended by the directors after the balance sheet date and is subject to approval by the shareholders at the forthcoming annual general meeting.

13. 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$59,951,000 *(2006: HK$42,980,000)* and on the weighted average number of 1,001,233,000 *(2006: 1,000,740,000)* shares in issue during the year.

Diluted earnings per share for the year ended March 31, 2007 is calculated based on the adjusted net profit attributable to equity shareholders for the year of HK$59,951,000 and on the adjusted weighted average number of 1,019,602,000 shares which is the weighted average number of shares in issue during the year plus the weighted average number of 18,369,000 shares deemed to be issued at no consideration if all outstanding options had been exercised. No diluted earnings per share have been presented for the year ended March 31, 2006 as there are no dilutive potential ordinary shares in issue.

14. Investment Properties

	The Group	
	2007	2006
	HK$'000	HK$'000
At fair value		
At beginning of the year	**94,863**	77,650
Transferred from property, plant and equipment	**—**	17,173
Increase in fair value	**1,957**	40
At end of the year	**96,820**	94,863

The Group's investment properties at March 31, 2007 were revalued by BMI Appraisals Limited, an independent firm of professional property valuers, on market value basis, at HK$96,820,000. The increase in fair value amounted to HK$1,957,000 of the investment properties has been credited to the income statement.

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

14. Investment Properties (Continued)

The carrying value of investment properties shown above comprises:

	The Group	
	2007	2006
	HK$'000	HK$'000
Land and buildings situated in Hong Kong and held under long leases	**32,820**	31,490
Land and buildings situated in the PRC and held under medium-term land use rights	**64,000**	63,373
	96,820	94,863

15. Property, Plant and Equipment

	Leasehold land and buildings HK$'000	**Buildings HK$'000**	**Construction in progress HK$'000**	**Leasehold improvements HK$'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, 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	—	—	—
Transferred 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
Currency realignment	—	—	—	254	383	132	110	879
Additions	—	874	—	2,012	2,802	667	2,538	8,893
Disposals	—	—	—	(1,278)	(570)	(541)	(1,345)	(3,734)
Revaluation increase (decrease)	3,300	(1,113)	—	—	—	—	—	2,187
At March 31, 2007	**63,100**	**33,745**	**—**	**15,289**	**20,434**	**13,584**	**5,478**	**151,630**
Comprising:								
At cost	—	—	—	15,289	20,434	13,584	5,478	54,785
At valuation — 2007	63,100	33,745	—	—	—	—	—	96,845
	63,100	33,745	—	15,289	20,434	13,584	5,478	151,630

15. Property, Plant and Equipment (Continued)

	Leasehold land and buildings HK$'000	Buildings HK$'000	Construction in progress HK$'000	Leasehold improvements HK$'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, 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
Currency realignment	—	—	—	259	342	122	82	805
Provided for the year	1,459	1,119	—	713	1,826	1,328	572	7,017
Eliminated on disposals	—	—	—	(710)	(544)	(510)	(1,303)	(3,067)
Eliminated on revaluation	(1,459)	(1,119)	—	—	—	—	—	(2,578)
At March 31, 2007	**—**	**—**	**—**	**13,229**	**15,027**	**11,711**	**2,559**	**42,526**
Net book value								
At March 31, 2007	**63,100**	**33,745**	**—**	**2,060**	**5,407**	**1,873**	**2,919**	**109,104**
At March 31, 2006	59,800	33,984	—	1,334	4,416	2,555	967	103,056

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

	The Group	
	2007 HK$'000	2006 HK$'000
Land and buildings situated in Hong Kong and held under medium-term leases	**67,490**	64,110
Land and buildings situated in the PRC and held under medium-term land use rights	**29,355**	29,674
	96,845	93,784

15. Property, Plant and Equipment (Continued)

The Group's leasehold land and buildings at March 31, 2007 were revalued by BMI Appraisals Limited, which is an independent firm of professional property valuers, on market value basis, at HK$96,845,000. The revaluation increase arising from revaluation of the leasehold land and buildings amounted to HK$4,765,000, of which HK$4,583,000 has been credited to the other property revaluation reserve and HK$182,000 has been credited to the income statement.

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$53,257,000 *(2006: HK$52,922,000)*.

16. Prepaid Land Lease Payments

	The Group	
	2007	2006
	HK$'000	HK$'000
At beginning of the year	**32,030**	32,794
Amortization	**(764)**	(764)
At end of the year	**31,266**	32,030

	The Group	
	2007	2006
	HK$'000	HK$'000
The net book value are analyzed as follows:		
Situated in Hong Kong held under medium-term leases	**31,013**	31,769
Situated in the PRC held under medium-term land use rights	**253**	261
	31,266	32,030

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 *(2006: HK$764,000)*.

17. Interest in an Associate

	The Group	
	2007	2006
	HK$'000	HK$'000
Share of net assets	**—**	—
Due from an associate	**86,587**	1,692
	86,587	1,692

17. Interest in an Associate (Continued)

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

The Group has 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 financial information of the associate is summarized as follows:

	2007	2006
	HK$'000	HK$'000
Assets	**404,225**	17,811
Liabilities	**(418,890)**	(19,043)
Equity	**(14,665)**	(1,232)

	For the year ended March 31, 2007 HK$'000	For the period from January 18, 2006 (date of incorporation) to March 31, 2006 HK$'000
Revenues	**—**	—
Net loss	**(19,878)**	(1,232)
Net loss attributable to the Group *(note)*	**(9,740)**	(604)

Note: Net loss attributable to the Group for the year of HK$9,740,000 (the period from January 18, 2006 (date of incorporation) to March 31, 2006: HK$604,000) has not been recognized for the associate that exceed its equity interest. At the balance sheet date, the Group has accumulated unrecognized losses amounted to HK$10,344,000 (2006: HK$604,000).

18. Interest in Subsidiaries

	The Company	
	2007	2006
	HK$'000	HK$'000
Unlisted shares, at cost	**206,664**	206,664
Due from subsidiaries	**151,162**	134,294
	357,826	340,958

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, 2007 are set out in note 38 to the financial statements.

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$'000	Accelerated tax depreciation HK$'000	Tax losses HK$'000	Unrealized profit in inventories HK$'000	Total HK$'000
The Group					
At April 1, 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
Charge to income for the year	565	283	487	712	2,047
Charge to equity for the year	806	—	—	—	806
At March 31, 2007	**13,292**	**392**	**(102)**	**(4,963)**	**8,619**
The Company					
At April 1, 2005 and at March 31, 2006	—	—	(530)	—	(530)
Credit to income for the year	—	—	521	—	521
At March 31, 2007	**—**	**—**	**(9)**	**—**	**(9)**

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	
	2007 HK$'000	2006 HK$'000	**2007 HK$'000**	2006 HK$'000
Deferred tax liabilities	**12,690**	10,866	**—**	—
Deferred tax assets	**(4,071)**	(5,100)	**(9)**	(530)
	8,619	5,766	**(9)**	(530)

19. Deferred Taxation (Continued)

At March 31, 2007, the Group has unused tax losses of HK$13,468,000 *(2006: HK$18,272,000)* available for offset against future profits. A deferred tax asset has been recognized in respect of HK$584,000 *(2006: HK$3,371,000)* of such losses. No deferred tax asset has been recognized in respect to the remaining HK$12,884,000 *(2006: HK$14,901,000)* due to unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

At March 31, 2007, the Group also has deductible temporary differences of HK$31,330,000 *(2006: HK$35,336,000)* attributable to unrealized profit in inventories. A deferred tax asset has been recognized in respect of HK$31,031,000 *(2006: HK33,027,000)* of such deductible temporary differences. No deferred tax asset has been recognized in respect of the remaining HK$299,000 *(2006: HK$2,309,000)* as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilized.

20. Inventories

	The Group	
	2007	2006
	HK$'000	HK$'000
Raw materials	**17,914**	11,838
Work in progress	**—**	6,154
Finished goods	**28,281**	37,878
	46,195	55,870

The amount of inventories, included in above, carried at fair value less costs to sell is HK$34,703,000 *(2006: HK$46,049,000)*.

21. Trade and Other Receivables

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade receivables	**56,921**	47,330
Deposits, prepayments and other debtors	**12,316**	11,123
	69,237	58,453

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	
	2007	2006
	HK$'000	HK$'000
0 - 60 days	**55,927**	43,479
61 - 120 days	**994**	3,851
	56,921	47,330

22. Financial Assets at Fair Value Through Profit or Loss

	The Group and the Company	
	2007	2006
	HK$'000	HK$'000
Trading securities, at market value:		
Listed equity investments in Hong Kong	**8,350**	15,560

23. Cash and Cash Equivalents

	The Group		The Company	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Bank balances and cash	**43,390**	46,289	**379**	254
Time deposits	**253,036**	237,856	**—**	4,126
Short-term deposits with other financial institutions	**—**	2,435	**—**	2,435
	296,426	286,580	**379**	6,815

Time deposits are made for approximately 1 month and carry interest at short-term deposit rates which range from 3% to 6% (2006: 1% to 5%).

24. Trade and Other Payables

	The Group	
	2007	2006
	HK$'000	HK$'000
Trade payables	**19,776**	11,477
Accrued charges and other creditors	**20,096**	21,792
	39,872	33,269

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	
	2007	2006
	HK$'000	HK$'000
0 - 60 days	**19,309**	9,461
61 - 120 days	**418**	1,268
> 120 days	**49**	748
	19,776	11,477

25. Due to Immediate Holding Company — The Group

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 at the balance sheet date.

26. Share Capital

	Number of shares		Share capital	
	2007	2006	**2007**	2006
	'000	'000	**HK$'000**	HK$'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	**1,000,740**	909,764	**100,074**	90,977
Bonus issue of share *(Note)*	**—**	90,976	**—**	9,097
Issue of new shares upon exercise of share options	**3,000**	—	**300**	—
At end of the year	**1,003,740**	1,000,740	**100,374**	100,074

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

The total number shares in respect of the 2002 Scheme and any other share option schemes of the Group are 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 resulted from a sub-division or consolidation of the number of shares at that date. Subject to 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 to 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.

27. Share Option Schemes (Continued)

(a) (Continued)

The following tables disclose details of the Company's share options held by directors and employees and movements in such holdings during the year.

				Number of share options				
Date of grant	**Exercisable period**	**Vesting period**	**Exercise Price HK$**	**Outstanding at April 1, 2006**	**Granted**	**Exercised**	**Lapsed**	**Outstanding at March 31, 2007**
Directors								
May 2, 2006	May 2, 2006 to May 1, 2012	*Note*	0.253	—	12,000,000	—	—	12,000,000
Employees								
May 2, 2006	May 2, 2006 to May 1, 2012	*Note*	0.253	—	36,000,000	(3,000,000)	(10,000,000)	23,000,000
September 18, 2006	September 18, 2006 to September 17, 2011	*Note*	0.233	—	20,000,000	—	—	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	—	—	5,000,000
				—	61,000,000	(3,000,000)	(10,000,000)	48,000,000
				—	73,000,000	(3,000,000)	(10,000,000)	60,000,000
Weighted average exercise price				—	HK$0.264	HK$0.253	HK$0.253	HK$0.267
Options vested March 31, 2007								55,000,000
Weighted average exercise price								HK$0.246
Weighted average remaining contractual life								4.87 years

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

No options have been granted under the 2002 Scheme during the year ended March 31, 2006. The weighted average closing price of the Company's shares immediately before the date on which share options were exercised during the year was HK$0.35 *(2006: HK$Nil)*.

During the year, 73,000,000 *(2006: Nil)* share options were granted under the 2002 scheme to directors and employees for an aggregate consideration of HK$12 *(2006: HK$Nil)*. The fair value of the options granted during the year calculated using the Black-Scholes option pricing model (the "Model") was HK$6,607,000.

27. Share Option Schemes (Continued)

(a) (Continued)

The inputs into the Model were as follows:

Date of grant	May 2, 2006	September 18, 2006	March 13, 2007
Number of share options granted during the year	48,000,000	20,000,000	5,000,000
Weighted average share price on 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	0.00%	0.00%	0.00%
Estimated fair value of the granted options expensed through income statement	HK$3,465,000	HK$1,759,000	HK$93,000

(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 board of directors of MSH. However, as a condition to list shares of common stock on the American Stock Exchange (“AMEX”), MSH undertakes to terminate the MSH Option Plan during the year ended March 31, 2006.

The initial 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, 2007 and 2006:

	Date of grant	Exercise price per share US$	Outstanding at April 1, 2005	Exercised during the year ended March 31, 2006	Outstanding at March 31, 2006 and 2007
Directors	September 16, 1997	0.976	375,000	(375,000)	—
	March 26, 2003	0.88	312,500	(312,500)	—
			687,500	(687,500)	—
Employees	September 16, 1997	0.976	125,000	(125,000)	—
			812,500	(812,500)	—

For the 500,000 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 the 312,500 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.

No options were available for future grant as of March 31, 2007 as the plan has been terminated during the year ended March 31, 2006.

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	Share option reserve HK$'000	Retained profits HK$'000	Total HK$'000
The Company					
At April 1, 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
Issue of new shares upon exercise of share options	676	—	(217)	—	459
Shares options granted	—	—	5,317	—	5,317
Shares options lapsed	—	—	(722)	722	—
Loss for the year	—	—	—	(2,800)	(2,800)
At March 31, 2007 *(Note)*	**51,517**	**206,459**	**4,378**	**4,081**	**266,435**

Note: A proposed final dividend of HK$30,112,000 was included in the balance at March 31, 2007.

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, 2007 amounted to HK$210,540,000 *(2006: HK$212,618,000)*, which represents the aggregate of contributed surplus of HK$206,459,000 *(2006: HK$206,459,000)* and accumulated profits of HK$4,081,000 *(2006: HK$6,159,000)*.

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, liquidity risk and interest rate 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 43% *(2006: 42%)* and 58% *(2006: 60%)* of the total trade receivables was due from the Groups' two largest customers and the five largest customers respectively.

The credit risk on the Group's bank deposits is limited because the majority of the counterparties is banks with high credit standing.

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's interest rate risk relates primarily to bank deposits. The fair value interest rate risk is limited as the interest rate of bank deposits is fixed. The management monitors the cash flow interest rate risk exposure and will take action should the need arises.

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	
	2007	2006
	HK$'000	HK$'000
Carrying amount of leasehold land and buildings	**63,100**	93,046
Carrying amount of investment properties	**11,200**	11,200
	74,300	104,246

31. Capital Commitment

	The Group	
	2007	2006
	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

As at March 31, 2007, the Group had capital commitments of HK$60,000,000 in relation of the additional acquisition of 6% of total issued share capital of the associate.

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 China Pearls and Jewellery City.

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	
	2007	2006
	HK$'000	HK$'000
Within one year	**3,494**	581
In the second to fifth year inclusive	**990**	228
	4,484	809

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$4,225,000 *(2006: HK$3,362,000)*. 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	
	2007	2006
	HK$'000	HK$'000
Within one year	**3,245**	3,474
In the second to fifth year inclusive	**2,013**	3,676
Over five years	**—**	204
	5,258	7,354

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

Regarding to court case (Hong Kong High Court Action No. 4423 of 2003 & No. 4599 of 2003) filed by Arcadia Jewellery Limited, a subsidiary of the Company, on December 2, 2003 and a former general manager on December 22, 2003 respectively, there has been no material progress since the last financial year ended March 31, 2006. 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	2007 HK$'000	2006 HK$'000
Key management personnel including directors as disclosed in note 9	Salaries and other short-term benefits	14,599	12,482
An entity which is significantly influenced by key management personnels of the Company	Professional fees paid	—	493
	Reimbursement for salaries of staff who have provided services to the entity	568	582
	Sale of goods	600	313
	Rental charges paid	229	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$1,364,000 *(2006: HK$901,000)* represents contributions payable to these schemes by the Group in respect of the current accounting period.

37. Post Balance Sheet Events

In March 2007, the Group entered into an agreement in relation to acquire the additional 6% of total issued share capital of the China Pearls and Jewellery City Holdings Limited, the 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 had 55% equity interest of the CP&J City, which has become a subsidiary of the Company.

37. Post Balance Sheet Events (Continued)

Business combinations

Details of net identifiable assets acquired and goodwill are as follows:

	HK$'000
Purchase consideration	
— Cash paid	60,000
— Direct cost relating to the acquisition	1,000
Total purchase consideration	61,000
6% of fair value of net identifiable assets acquired — as shown below	4,866
Loan assigned	10,560
Goodwill	45,574

The above goodwill is attributable to gaining the controlling rights and executive power over China Pearls and Jewellery City Holdings Limited for the development of China Pearls and Jewellery City.

The identifiable assets and liabilities arising from the acquisition are as follows:

	Fair value HK$'000	CP&J City carrying amount HK$'000
Cash and cash equivalents	167,961	167,961
Property, plant and equipment	339,597	196,657
Trade and other receivables	39,607	39,607
Trade and other payables	(277,252)	(277,252)
Bank borrowings	(141,638)	(141,638)
Net deferred tax liabilities	(47,170)	—
Net identifiable assets (liabilities) acquired	81,105	(14,665)

38. Particulars of Subsidiaries

Particulars of the Company's subsidiaries at March 31, 2007 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 jewellery products
Asean Gold Limited	The 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
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

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 Hing Industry Development (Shenzhen) Co., Ltd.	PRC	Registered capital HK$29,600,000	100%	Purchasing and processing of pearls and assembling of pearl jewellery and property investment
Man Sang Development Company Limited	Hong Kong	Ordinary shares HK$5,000	100%	Investment and property holding
Man Sang Enterprise Ltd.	The 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	The 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	The 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 : *Man Hing Industry Development (Shenzhen) Co., Ltd. was registered in the PRC as foreign wholly-owned investment enterprises.*

Five-year Financial Summary

Results

	For the year ended March 31,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000
Turnover	**398,279**	378,297	412,262	382,123	323,082
Profit before taxation	**67,165**	46,816	41,933	40,982	27,768
Taxation	**(7,214)**	(3,836)	85	(3,802)	(3,527)
Profit for the year	**59,951**	42,980	42,018	37,180	24,241
Proposed final dividends	**30,112**	—	—	—	—
Attributable to:					
Equity shareholders of the Company	**59,951**	42,980	42,018	37,180	24,564
Minority interest	**—**	—	—	—	(323)
	59,951	42,980	42,018	37,180	24,241

Assets and Liabilities

	At March 31,				
	2007	2006	2005	2004	2003
	HK$'000	HK$'000	HK$'000 (Restated)	HK$'000	HK$'000
Total assets	**749,676**	654,655	596,430	562,114	482,833
Total liabilities	**(70,632)**	(46,230)	(43,415)	(72,684)	(73,886)
Shareholders' funds	**679,044**	608,425	553,015	489,430	408,947

Note: The above figures prior to the year ended March 31, 2005 have not been adjusted to take into account the effect on the adoption of the new and revised Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants as the directors considered that such information is not available without incurring significant costs and effort.

Major Properties

Below is a schedule of investment properties held by the Group in Hong Kong and the PRC as at March 31, 2007:

Location	Description and Tenure	Use	Group's Interest
Group I			
Apartment on the whole of 17th Floor and a car parking space No. 16 on 2nd Floor, Silvercrest, No. 24 Macdonnell Road, Mid-levels, Hong Kong (32/793th shares of and in Section H of Inland Lot No. 1416)	The gross floor area of the apartment (excluding the car parking space) is approximately 2,643 square feet (245.5 square metres) and the saleable area is approximately 2,246 square feet (208.7 square metres). The property is held under a Government lease for a term of 999 years commencing from June 14, 1897.	Residential The property is let for a term of two years commencing from October 25, 2006	100%
Flat A on 33rd Floor, Valverde, No. 11 May Road, Mid-levels, Hong Kong (80/9,100th shares of and in Inland Lot No. 8213)	The gross floor area of the property is approximately 1,063 square feet (98.8 square metres) and the saleable area is approximately 850 square feet (79 square metres). The property is held under Conditions of Exchange No. 9660 for a term of 75 years and renewable for a further 75 years from August 21, 1911.	Residential The property is vacant and available for lease	100%
Car parking Space No. CP3 on 3rd Floor, Valverde, No. 11 May Road, Mid-levels, Hong Kong (7/9,100th shares of and in Inland Lot No. 8213)	The property is held under Conditions of Exchange No. 9660 for a term of 75 years and renewable for a further 75 years from August 21, 1911.	Car Park The property is vacant and available for lease	100%
Unit 7, 4th Floor, Wing Tuck Commercial Centre, No. 13–17 Bonham Strand West and No. 177–183 Wing Lok Street, Sheung Wan, Hong Kong (17/2, 422nd shares of and in Inland Lot No. 1073, 1728, 1760 & 1761 and the Remaining Portion of Section A of Inland Lot No. 1760)	The gross floor area of the property is approximately 957 square feet (88.91 square metres) and the saleable area is approximately 762 square feet (70.79 square metres). The property is held under Government Leases for a term of 999 years commencing from September 27, 1854.	Office The property is let for a term of three years commencing from September 22, 2005	100%

Location	Description and Tenure	Use	Group's Interest
Group II			
18 Blocks of Man Sang Industrial City, Man Sheng Main Road, Gong Ming Zhen, Bao An, Shenzhen, the PRC	The property has a total gross floor area of approximately 544,526 square feet (50,587.70 square metres). The property has been granted for a land use term of 50 years from September 1, 1991 to August 31, 2041	Factories and residential The property is let to various tenants for terms of generally three years	100%

Group I – Investment properties held by the Group in Hong Kong

Group II – Investment properties held by the Group in PRC