

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended December 31, 2006

**OR**

**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number: 33-10639-NY

**MAN SANG HOLDINGS, INC.**  
(Exact name of registrant as specified in its charter)

Nevada  
(State or other jurisdiction  
of incorporation or organization)

87-0539570  
(I.R.S. Employer Identification No.)

21/F, Railway Plaza, 39 Chatham Road South, Tsimshatsui, Kowloon, Hong Kong  
(Address of principal executive officers)

(852) 2317 5300  
(Registrant's telephone number)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of February 13, 2007, 6,382,582 shares of the Registrant's common stock were outstanding.

---

**MAN SANG HOLDINGS, INC.**  
**TABLE OF CONTENTS**

	<u>Page</u>
<b>PART I - FINANCIAL INFORMATION</b>	
ITEM 1.	Financial Statements
	Condensed Consolidated Balance Sheets as at December 31, 2006 and March 31, 2006
	F-1
	Condensed Consolidated Statements of Operations and Comprehensive Income for the Three and Nine Months Ended December 31, 2005 and 2006 (unaudited)
	F-3
	Condensed Consolidated Statements of Cash Flows for the Nine Months Ended December 31, 2005 and 2006 (unaudited)
	F-4
	Notes to Condensed Consolidated Financial Statements (unaudited)
	F-5
ITEM 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
	1
ITEM 3.	Quantitative and Qualitative Disclosures about Market Risk
	6
ITEM 4.	Controls and Procedures
	7
<b>PART II - OTHER INFORMATION</b>	
ITEM 6.	Exhibits
	8
SIGNATURES	9

---

PART 1 - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

MAN SANG HOLDINGS, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS  
(Amounts expressed in thousands except share data)

	December 31, 2006		March 31, 2006
	US\$	HK\$	HK\$
	(Unaudited)		
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	34,534	269,365	304,753
Marketable securities	1,075	8,388	15,560
Accounts receivable, net of allowance for doubtful accounts of HK\$22,230 (US\$2,850) as of December 31, 2006 and HK\$22,265 (US\$2,854) as of March 31, 2006	9,263	72,250	47,330
Inventories :			
Raw materials	1,377	10,742	11,838
Work in progress	1,311	10,225	6,154
Finished goods	1,225	9,555	37,878
	3,913	30,522	55,870
Prepaid expenses	963	7,513	5,775
Deposits and other receivables, net of allowance for doubtful accounts of HK\$2,901(US\$372) and HK\$3,766 (US\$483) as of December 31, 2006 and March 31, 2006, respectively	1,440	11,233	10,124
Other current assets	17	137	259
Income tax receivable	95	738	1,257
Total current assets	51,300	400,146	440,928
Deferred tax assets	74	575	1,022
Property, plant and equipment	19,905	155,256	152,598
Accumulated depreciation	(6,818)	(53,184)	(50,303)
	13,087	102,072	102,295
Real estate investment	9,653	75,290	75,290
Accumulated depreciation	(1,762)	(13,744)	(12,452)
	7,891	61,546	62,838
Investment in and advance to an affiliate	11,082	86,438	1,692
	83,434	650,777	608,775
	83,434	650,777	608,775

**MAN SANG HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEETS - continued**  
(Amounts expressed in thousands except share data)

	<u>December 31, 2006</u>		<u>March 31, 2006</u>
	US\$	HK\$	HK\$
	(Unaudited)		
<b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>			
Current liabilities:			
Accounts payable	1,971	15,373	11,477
Accrued payroll and employee benefits	1,139	8,887	9,405
Other accrued liabilities	1,326	10,334	12,928
Income taxes payable	581	4,528	2,049
Total current liabilities	<u>5,017</u>	<u>39,122</u>	<u>35,859</u>
Deferred tax liabilities	254	1,978	2,031
Minority interests	38,637	301,371	279,989
Stockholders' equity:			
Series A preferred stock, par value US\$0.001	-	1	1
- authorized, issued and outstanding: 100,000 shares; (entitled in liquidation to US\$2,500 (HK\$19,500))			
Series B convertible preferred stock, par value US\$0.001	-	-	-
- authorized: 100,000 shares; no shares outstanding			
Common stock, par value US\$0.001	6	49	49
- authorized: 31,250,000 shares; issued and outstanding: 6,382,582 shares as of December 31, 2006 and March 31, 2006, respectively			
Additional paid-in capital	8,951	69,821	67,598
Retained earnings	29,714	231,768	217,364
Accumulated other comprehensive income	855	6,667	5,884
Total stockholders' equity	<u>39,526</u>	<u>308,306</u>	<u>290,896</u>
Total liabilities and stockholders' equity	<u>83,434</u>	<u>650,777</u>	<u>608,775</u>

See accompanying notes to condensed consolidated financial statements

**MAN SANG HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (Unaudited)**  
**FOR THE THREE AND NINE MONTHS ENDED DECEMBER 31**  
(Amounts expressed in thousands except share data)

	<u>Three Months Ended December 31,</u>			<u>Nine Months Ended December 31,</u>		
	<u>2006</u>		<u>2005</u>	<u>2006</u>		<u>2005</u>
	<u>US\$</u>	<u>HK\$</u>	<u>HK\$</u>	<u>US\$</u>	<u>HK\$</u>	<u>HK\$</u>
Net sales	13,690	106,780	90,174	38,476	300,112	302,041
Cost of goods sold	(10,649)	(83,061)	(66,423)	(27,787)	(216,736)	(219,683)
Gross profit	<u>3,041</u>	<u>23,719</u>	<u>23,751</u>	<u>10,689</u>	<u>83,376</u>	<u>82,358</u>
Rental income, gross	<u>135</u>	<u>1,055</u>	<u>585</u>	<u>373</u>	<u>2,912</u>	<u>2,428</u>
	3,176	24,774	24,336	11,062	86,288	84,786
Selling, general and administrative expenses						
- Pearls	(2,604)	(20,315)	(18,377)	(7,570)	(59,053)	(53,405)
- Real estate investment	(133)	(1,034)	(1,158)	(537)	(4,189)	(4,947)
Operating income	<u>439</u>	<u>3,425</u>	<u>4,801</u>	<u>2,955</u>	<u>23,046</u>	<u>26,434</u>
Non-operating items						
- Interest income	299	2,328	2,272	824	6,423	4,802
- Gain on sales of a real estate investment	-	-	-	-	-	-
- Other income	75	585	392	186	1,449	1,213
- Realized gain on sales of marketable securities	611	4,769	0	611	4,769	0
Income before income taxes and minority interests	<u>1,424</u>	<u>11,107</u>	<u>7,465</u>	<u>4,576</u>	<u>35,687</u>	<u>32,449</u>
Income taxes	(166)	(1,290)	(1,174)	(476)	(3,705)	(6,048)
Income before minority interests	<u>1,258</u>	<u>9,817</u>	<u>6,291</u>	<u>4,100</u>	<u>31,982</u>	<u>26,401</u>
Minority interests	(718)	(5,603)	(3,786)	(2,299)	(17,936)	(15,160)
Net income	<u>540</u>	<u>4,214</u>	<u>2,505</u>	<u>1,801</u>	<u>14,046</u>	<u>11,241</u>
Other comprehensive income (loss), net of taxes and minority interests						
- Foreign currency translation adjustments	221	1,720	287	261	2,036	710
- Unrealized holding (loss) gain on marketable securities	(39)	(304)	81	(28)	(219)	815
- Realization of holding gain upon sale of marketable securities	(133)	(1,034)	-	(133)	(1,034)	-
Other comprehensive income, net of taxes and minority interests	<u>49</u>	<u>382</u>	<u>368</u>	<u>100</u>	<u>783</u>	<u>1,525</u>
Comprehensive income	<u><u>589</u></u>	<u><u>4,596</u></u>	<u><u>2,873</u></u>	<u><u>1,901</u></u>	<u><u>14,829</u></u>	<u><u>12,766</u></u>
Basic earnings per common share	<u>0.08</u>	<u>0.65</u>	<u>0.41</u>	<u>0.28</u>	<u>2.17</u>	<u>1.89</u>
Diluted earnings per common share	<u>0.08</u>	<u>0.65</u>	<u>0.39</u>	<u>0.27</u>	<u>2.14</u>	<u>1.76</u>
Weighted average number of shares of common stock						
- for basic earnings per share	<u>6,382,582</u>	<u>6,382,582</u>	<u>6,058,533</u>	<u>6,382,582</u>	<u>6,382,582</u>	<u>5,849,400</u>
- for diluted earnings per share	<u>6,382,582</u>	<u>6,382,582</u>	<u>6,325,762</u>	<u>6,382,582</u>	<u>6,382,582</u>	<u>6,292,956</u>

See accompanying notes to condensed consolidated financial statements

**MAN SANG HOLDINGS, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
**FOR THE NINE MONTHS ENDED DECEMBER 31**  
(Amounts expressed in thousands)

**Nine Months Ended December 31,**

	<b>2006</b>		<b>2005</b>
	<b>US\$</b>	<b>HK\$</b>	<b>HK\$</b>
<b>Cash flow from operating activities:</b>			
Net income	1,801	14,046	11,241
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for doubtful debts	-	-	1,500
Inventory write down	1,212	9,450	19,000
Compensation expense	670	5,224	-
Depreciation and amortization	788	6,147	5,613
Gain on sales of marketable securities	(611)	(4,769)	-
Gain on sales of property, plant and equipment	(21)	(161)	-
Minority interests	2,299	17,936	15,160
Changes in operating assets and liabilities:			
Accounts receivable	(3,195)	(24,920)	(12,688)
Inventories	2,081	16,230	(19,945)
Prepaid expenses	(222)	(1,733)	(1,531)
Deposits and other receivables	(132)	(1,031)	(3,130)
Other current assets	16	122	236
Income taxes receivable	67	519	95
Deferred tax assets	57	447	(1,367)
Accounts payable	493	3,849	2,981
Accrued payroll and employee benefits	(68)	(533)	(838)
Other accrued liabilities	(344)	(2,681)	(2,049)
Deferred tax liabilities	(7)	(53)	547
Income taxes payable	318	2,479	8,145
Net cash provided by operating activities	<u>5,202</u>	<u>40,568</u>	<u>22,970</u>
<b>Cash flow from investing activities:</b>			
Purchase of property, plant and equipment	(617)	(4,814)	(5,811)
Purchase of marketable securities	-	-	(5,051)
Proceeds from sales of property, plant and equipment	99	772	914
Proceeds from sales of marketable securities	1,206	9,405	-
Advance to an affiliate	(10,865)	(84,746)	-
Net cash used in investing activities	<u>(10,177)</u>	<u>(79,383)</u>	<u>(9,948)</u>
<b>Cash flow from financing activities:</b>			
Net proceeds from issuance of common stock	-	-	5,952
Net cash provided by financing activities	<u>-</u>	<u>-</u>	<u>5,952</u>
Net increase in cash and cash equivalents	(4,975)	(38,815)	18,974
Cash and cash equivalents at beginning of period	39,071	304,753	243,297
Exchange adjustments	438	3,427	196
Cash and cash equivalents at end of period	<u>34,534</u>	<u>269,365</u>	<u>262,467</u>
<b>Supplementary disclosures of cash flow information</b>			
Cash paid during the period for:			
Interest and financing charges	-	-	-
Net income taxes refunded	<u>(22)</u>	<u>(172)</u>	<u>(7)</u>

See accompanying notes to condensed consolidated financial statements

**Man Sang Holdings, Inc. and Subsidiaries**

**Notes to Condensed Consolidated Financial Statements**

**December 31, 2006**  
**(Unaudited)**

**1. Interim Financial Presentation**

The interim financial statements are prepared pursuant to the requirements for reporting on Form 10-Q. The March 31, 2006 balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The interim financial statements and notes thereto should be read in conjunction with the financial statements and notes included in the annual report of Man Sang Holdings, Inc. (the "Company") on Form 10-K for the fiscal year ended March 31, 2006. In the opinion of management, the interim financial statements reflect all adjustments of a normal recurring nature necessary for a fair presentation of the results for the interim periods presented. Operating results and cash flows for interim periods are not necessarily indicative of results of the entire year.

**2. Currency Presentations and Foreign Currency Translation**

Assets and liabilities of foreign subsidiaries are translated from their functional currency to the reporting currency, at period-end exchange rates, while revenues and expenses are translated at average exchange rates during the period. Adjustments arising from such translation are reported as a separate component of stockholders' equity. Gains or losses from foreign currency transactions are included in the Statement of Operations. Aggregate net foreign currency gains or losses were immaterial for all periods presented in this report.

The consolidated financial statements of the Company are maintained, and its consolidated financial statements are expressed, in Hong Kong dollars. The translations of Hong Kong dollar amounts into United States dollars are for convenience only and have been made at the rate of HK\$7.8 to US\$1, the approximate free rate of exchange as of December 31, 2006. Such translations should not be construed as representations that Hong Kong dollar amounts could be converted into United States dollars at that rate or any other rate.

**3. Recent Accounting Pronouncements**

There are no new accounting pronouncements for which adoption is expected to have a material effect on the Company's financial statements.

**4. Earnings Per Share ("EPS")**

EPS is calculated in accordance with SFAS No. 128 by application of the two-class method. The two-class method is an earnings allocation formula that determines earnings per share for each class of common stock and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. Per share data is calculated using the weighted average number of shares of common stock outstanding during the period.

	For the Quarter Ended December 31, 2005 HK\$'000	For the Nine Months Ended December 31, 2005 HK\$'000
Net income	2,505	11,241
Allocation of Series A preferred stock	<u>(41)</u>	<u>(189)</u>
Net income available to common stockholders	<u>2,464</u>	<u>11,052</u>
	No. of shares	No. of shares
Weighted average-shares outstanding	6,058,533	5,849,400
Effect of dilutive securities-stock options granted by the Company	<u>267,229</u>	<u>443,556</u>
Adjusted weighted average-shares outstanding	<u>6,325,762</u>	<u>6,292,956</u>
	HK\$	HK\$
Net earnings per share		
Basic	<u>0.41</u>	<u>1.89</u>
Diluted	<u>0.39</u>	<u>1.76</u>



	For the Quarter Ended December 31, 2006 HK\$'000	For the Nine Months Ended December 31, 2006 HK\$'000
Net income	4,214	14,046
Allocation of Series A preferred stock	(65)	(217)
Net income available to common stockholders, adjusted	4,149	13,829
Stock options granted by a listed subsidiary	(22)	(173)
Net income available to common stockholders including conversion	<u>4,127</u>	<u>13,656</u>
	No. of shares	No. of shares
Weighted average-shares outstanding	<u>6,382,582</u>	<u>6,382,582</u>
	HK\$	HK\$
Net earnings per share		
Basic	<u>0.65</u>	<u>2.17</u>
Diluted	<u>0.65</u>	<u>2.14</u>

## 5. Disclosure of Geographic Information

All of the Company's sales of pearls are coordinated through its Hong Kong subsidiaries. The following is an analysis by destination:

	For the Quarter Ended December 31		For the Nine Months Ended December 31	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Net Sales:				
Hong Kong	5,665	9,110	19,995	29,824
Export:				
North America	38,735	26,131	86,397	89,249
Europe (excluding Germany)	15,276	13,522	42,726	42,247
Germany	30,099	25,231	75,554	66,678
Japan	7,723	8,860	29,223	34,291
Other Asian countries	5,959	4,124	31,128	25,193
Others	3,323	3,196	15,089	14,559
	<u>106,780</u>	<u>90,174</u>	<u>300,112</u>	<u>302,041</u>

The Company operates primarily in one geographic area: Hong Kong and other regions of the People's Republic of China. The locations of the Company's identifiable assets are as follows:

	December 31, 2006 HK\$'000	March 31, 2006 HK\$'000
Hong Kong	437,220	514,056

People's Republic of China	<u>213,557</u>	<u>94,719</u>
	<u>650,777</u>	<u>608,775</u>

**6. Disclosure of Major Customers**

During the three months ended December 31, 2006, two customers accounted for 20.4% and 11.5% of total sales, respectively. During the nine months ended December 31, 2006, one customer accounted for 17.3% of total sales. During the three months ended December 31, 2005, one customer accounted for 16.3% of total sales. During the nine months ended December 31, 2005, two customers accounted for 10.8% each of total sales. Generally, a substantial percentage of the Company's sales has been made to a small number of customers and is typically on an open account basis.

## 7. Segment Information

Reportable segment profit or loss, and segment assets are disclosed as follows:

	Reportable Segment Profit or Loss, and Segment Assets			
	For the quarter ended, December 31		For the nine months ended, December 31	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Revenues from external customers:				
Pears	106,780	90,174	300,112	302,041
Real estate investment	1,055	585	2,912	2,428
	<u>107,835</u>	<u>90,759</u>	<u>303,024</u>	<u>304,469</u>
Operating income (loss):				
Pears	3,404	5,374	24,323	28,953
Real estate investment	21	(573)	(1,277)	(2,519)
	<u>3,425</u>	<u>4,801</u>	<u>23,046</u>	<u>26,434</u>
Depreciation and amortization:				
Pears	1,622	1,344	4,291	3,992
Real estate investment	392	332	1,167	932
Corporate assets	230	230	689	689
	<u>2,244</u>	<u>1,906</u>	<u>6,147</u>	<u>5,613</u>
Capital expenditure for segment assets:				
Pears	3,454	3,670	4,814	5,811
Real estate investment	-	-	-	-
	<u>3,454</u>	<u>3,670</u>	<u>4,814</u>	<u>5,811</u>
			As of December 31, 2006	As of March 31, 2006
			HK\$'000	HK\$'000
Segment assets:				
Pears			542,459	487,925
Real estate investment			61,546	62,838
Corporate assets			46,772	58,012
			<u>650,777</u>	<u>608,775</u>

## 8. Investment in and advances to an Affiliate

During the nine months ended December 31, 2006, advances of approximately HK\$84.7 million have been made to the affiliate which holds the project of CP&J City. The amount due from the affiliate is unsecured, non-interest bearing and has no fixed repayment term.

## 9. Common Stock and Stock Compensation Plans

Pursuant to the share option scheme (the "Plan") adopted on August 2, 2002 by Man Sang International Limited ("MSIL"), a subsidiary of the Company, MSIL granted options to purchase a total of 68,000,000 shares ("MSIL Options") to certain directors and employees during the period from April 1, 2006 to September 30, 2006, of which options to purchase 10,000,000 shares granted to one of its employees had lapsed on September 18, 2006. These options were granted at an exercise price of HK\$0.253 per share, which are determined by the arithmetic average of the closing price of MSIL shares for each of the five trading days immediately prior to and including May 2, 2006, and HK\$0.233 per share, the closing price of MSIL shares on September 18, 2006.

A summary of the number of outstanding and exercisable options under the Plan as of December 31, 2006, and changes during the period then ended is presented as follows:

	<b>Number of MSIL Options</b>	<b>Exercise price with the weighted average exercise price in parenthesis</b>
Outstanding as at April 1, 2006	-	
Granted	68,000,000	HK\$0.253 and HK\$0.233 (HK\$0.247)
Forfeited	<u>(10,000,000)</u>	HK\$0.253
Outstanding as at December 31, 2006	<u>58,000,000</u>	HK\$0.253 and HK\$0.233 (HK\$0.246)
Exercisable as at December 31, 2006	<u>58,000,000</u>	HK\$0.253 and HK\$0.233 (HK\$0.246)

The Company accounts for stock-based compensation in accordance with SFAS No. 123(R), Share-Based Payment (revised 2004). Under the fair value recognition of this statement, stock-based compensation cost is measured at the grant date based on the value of the award granted, and recognized over the vesting period. The fair value of each option granted was calculated using the Black-Scholes option pricing model. The Company estimates the fair value of stock options using the Black-Scholes option pricing model, with the following assumptions:

	<b>Granted in 2006</b>	
	<b>May 2</b>	<b>Sep 18</b>
Risk-free interest rate per annum	4.660%	4.025%
Expected life	5 years	5 years
Expected volatility	21.83%	35.25%
Expected dividend yield	0.00%	0.00%

The weighted average fair value of the MSIL Options granted during the period was HK\$0.06. As of December 31, 2006, the weighted average remaining contractual term of the MSIL Options was 5.12 years. Stock-based compensation expenses for the nine months ended December 31, 2006 and December 31, 2005 was HK\$5.2 million and HK\$Nil, respectively.

**ITEM 2.****MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*This section and other parts of this Form 10-Q contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, which are, by their nature, subject to risks and uncertainties. This Act provides a "safe harbor" for forward-looking statements to encourage companies to provide prospective information about themselves so long as they identify these statements as forward-looking and provide meaningful cautionary statements identifying important factors that could cause actual results to differ from the projected results. All statements, other than statements of historical fact, including statements regarding industry prospects and future results of operations or financial position, made in this Form 10-Q are forward looking. Words such as "anticipates," "believes," "expects," "future" and "intends" and similar expressions may identify forward-looking statements. These forward-looking statements include, without limitation, statements relating to: our future performance, our expansion efforts, demand for our products; the state of economic conditions and our markets; currency and exchange rate fluctuations; and our ability to meet our liquidity requirements. These forward-looking statements are based on assumptions and analyses made by us in light of our experience and perception of historical trends, current conditions and expected future developments, as well as other factors we believe to be appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depend on a number of known and unknown risks and uncertainties and other factors, any or all of which could cause actual results, performance or achievements to differ materially from our expectations, whether expressed or implied by such forward-looking statements (which may relate to, among other things, the Company's sales, costs and expenses, income, inventory performance, and receivables). Primarily engaged in the processing and trading of pearls and pearl jewelry products, and in real estate investment, our ability to achieve our objectives and expectations are derived at least in part from assumptions regarding economic conditions, consumer tastes, and developments in our competitive environment. The following assumptions, among others, could materially affect the likelihood that we will achieve our objectives and expectations communicated through these forward-looking statements: (i) that low or negative growth in the economies or the financial markets of our customers, particularly in the United States and in Europe, will not occur and reduce discretionary spending on goods that might be perceived as "luxuries"; (ii) that the Hong Kong dollar will remain pegged to the U.S. dollar at US\$1 to HK\$7.8; (iii) that customer's choice of pearls vis-à-vis other precious stones and metals will not change adversely; (iv) that we will continue to obtain a stable supply of pearls in the quantities, of the quality and on terms we require; (v) that there will not be a substantial adverse change in the exchange relationship between the renminbi ("RMB") and the Hong Kong or U.S. dollar; (vi) that there will not be a substantial increase in the tax burdens of our subsidiaries operating in the People's Republic of China; (vii) that there will not be a substantial change in climate and environmental conditions at the source regions of pearls that could have a material adverse effect on the supply and pricing of pearls; and (viii) that there will not be a substantial adverse change in the real estate market conditions in the People's Republic of China and in Hong Kong. The following discussion of our results of operation, and liquidity and capital resources should be read in conjunction with the financial statements and the notes thereto included elsewhere in this Form 10-Q and with our annual report on Form 10-K for the year ended March 31, 2006, which contains a further description of risks and uncertainties related to forward-looking statements, as well as other aspects of our business. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We will not publicly release any revisions to these*

*forward-looking statements after the date hereof. Readers are urged, however, to review the factors set forth in reports that we file from time to time with the Securities and Exchange Commission.*

## **Overview**

For the nine months ended December 31, 2006, net sales of the Company decreased by 0.6% to HK\$300.1 million as compared to the same period in fiscal year ended March 31, 2006. Among the Company's product portfolio, the net sales of the assembled finished pearl and jewelry products increased by 5.6%, which accounted for 54.1% of total sales when compared to the same period in fiscal year ended March 31, 2006. As to South Sea pearls, its net sales decreased by 4.7% to 34.1% of total sales amid the decrease in the demand when compared to the same period in fiscal year ended March 31, 2006.

Net income for the nine months ended December 31, 2006 was HK\$14.0 million, including the one-time realized gain of HK\$4.8 million from the sale of marketable securities and the one-time stock-based compensation expenses of HK\$5.2 million from the grant of the MSIL Options, compared to the net income of HK\$11.2 million for the nine months ended December 31, 2005.

In March 2006, the Company invested in China Pearls and Jewellery City project located in Zhuji, Zhejiang in the People's Republic of China (the "CP&J City"). The investment has been fully paid and the Company obtained the land use rights certificate for the development of Phase I of the CP&J City. The construction work has been carried out after receiving the approval for commencement of construction work in September 2006. We expect that construction work for Phase I of the CP&J City will be completed by the end of calendar year 2007.

## **Future Trends**

In view of the existing market environment, the Company expects to maintain prudent measures on controlling its costs and continue to expand its market share and customer base. We expect to put great effort on maintaining high quality and creating innovative designs of our products which we believe will lead us to successfully achieve our targeted performance results. The management and staff are dedicated and committed to realizing the Company's goals and we remain confident that our business future shall be promising in years to come.

## **Results of Operations**

*For the Nine-Month Period Ended December 31, 2006 compared to Nine-Month Period Ended December 31, 2005.*

### *Sales and Gross Profit*

Net sales for the nine months ended December 31, 2006 decreased by HK\$1.9 million, or 0.6% to HK\$300.1 million, compared to net sales of HK\$302.0 million for the nine months ended December 31, 2005. The decrease in sales was mainly due to the decrease in the sales of South Sea pearls but partly offset by the increase in sales of assembled pearl and jewelry finished products.

Gross profit for the nine months ended December 31, 2006 increased by HK\$1.0 million, or 1.2%, to HK\$83.4 million from HK\$82.4 million for the nine months ended December 31, 2005. As a percentage of net sales, gross profit margin increased 0.5% to 27.8% for the nine months ended December 31, 2006 from 27.3% for the nine months ended December 31, 2005. The increase in gross profit margin was mainly attributable to the change in sales mix which resulted in a slightly higher gross profit margin. The sales on assembled pearl and jewelry products accounted for 54.1% of the total sales for the nine months ended December 31, 2006, which increased by 5.6% when compared to that of 48.5% for the nine months ended December 31, 2005.

#### *Rental Income*

Gross rental income for the nine months ended December 31, 2006 was HK\$2.9 million compared to HK\$2.4 million for the nine months ended December 31, 2005, representing an increase of HK\$0.5 million, or 19.9%. The increase in gross rental income was mainly attributable to the increase in rental income received from our Man Sang Industrial City located in Shenzhen, PRC.

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

SG&A expense for the nine months ended December 31, 2006 was HK\$63.2 million, consisting of HK\$59.0 million attributable to pearl operations and HK\$4.2 million attributable to real estate operations. SG&A expense for the nine months ended December 31, 2006, increased approximately HK\$4.8 million, or 8.4%, from HK\$58.4 million for the nine months ended December 31, 2005, which consisted of HK\$53.4 million attributable to pearl operations and HK\$5.0 million attributable to real estate operations. The higher SG&A expense attributable to pearl operations was mainly due to the one-time HK\$5.2 million stock compensation expense resulted from the grants of share options by MSIL to certain directors and employees on May 2, 2006 and September 18, 2006.

As a percentage of net sales, SG&A expense attributable to pearl operations increased 2.0% to 19.7% for the nine months ended December 31, 2006, from 17.7% for the nine months ended December 31, 2005.

#### *Interest Income*

Interest income increased by HK\$1.6 million, or 33.8%, to HK\$6.4 million for the nine months ended December 31, 2006 from HK\$4.8 million for the nine months ended December 31, 2005. The increase was principally due to higher deposit interest rates and higher cash balances during the nine months ended December 31, 2006.

#### *Income Tax Expense*

Income tax expense for the nine months ended December 31, 2006 was HK\$3.7 million, compared to the HK\$6.0 million during the nine months ended December 31, 2005. The decrease was due to higher non-taxable income generated for the nine months ended December 31, 2006.

#### *Net Income*

Net income for the nine months ended December 31, 2006 was HK\$14.0 million, including the one-time realized gain of HK\$4.8 million from the sale of marketable securities and the one-time stock-based compensation expenses of HK\$5.2 million from the grant of the MSIL Options, compared to net income of HK\$11.2 million for the nine months ended December 31, 2005. The increase was mainly attributable to the realized gain on sale of marketable securities of HK\$4.8 million, of which there was other-than-temporary impairment of HK\$2.1 million recognized in fiscal year ended March 31, 2003. In addition, higher interest income and lower income tax expenses were also the contributors to the increase in net income but partly offset by an increase in SG&A expense.

## **Results of Operations**

*For the Three-Month Period Ended December 31, 2006 compared to Three-Month Period Ended December 31, 2005.*

### *Sales and Gross Profit*

Net sales for the three months ended December 31, 2006 increased by HK\$16.6 million, or 18.4% to HK\$106.8 million, compared to net sales of HK\$90.2 million during the three months ended December 31, 2005. The increase in sales was mainly attributable to the robust growth on the sales of assembled pearl and jewelry products.

Gross profit for the three months ended December 31, 2006 and December 31, 2005 were both approximately HK\$23.7 million. As a percentage of net sales, gross profit margin decreased by 4.1% to 22.2% for the three months ended December 31, 2006 from 26.3% for the three months ended December 31, 2005. The decrease in gross profit margin was mainly attributable to the increased sales during the three months ended December 31, 2006 of certain generic jewelry items which have a lower profit margin.

### *Rental Income*

Gross rental income for the three months ended December 31, 2006 was approximately HK\$1.1 million representing an increase of approximately HK\$0.5 million, or 80.3%, as compared to HK\$0.6 million for the three months ended December 31, 2005. The increase in gross rental income was mainly attributable to higher rental income received from Man Sang Industrial City.

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

SG&A expense was HK\$21.3 million for the three months ended December 31, 2006, consisting of HK\$20.3 million attributable to pearl operations and HK\$1.0 million attributable to real estate operations. SG&A expense for the three months ended December 31, 2006, increased by approximately HK\$1.8 million, or 9.3%, from HK\$19.5 million for the three months ended December 31, 2005, which consisted of HK\$18.4 million attributable to pearl operations and HK\$1.1 million attributable to real estate operations. The increased SG&A expense attributable to the pearl operations was mainly due to the higher net sales. In addition, it also due to the higher rental expenses incurred for the new tenancy agreement for the Company's principal office in Hong Kong which came into effect during the three months ended December 31, 2006.



As a percentage of net sales, SG&A expense attributable to pearl operations decreased 1.4% to 19.0% for the three months ended December 31, 2006 from 20.4% for the three months ended December 31, 2005.

#### *Interest Income*

Interest income for the three months ended December 31, 2006 and December 31, 2005 were both approximately HK\$2.3 million. The slightly increase in interest income was principally due to higher deposits interest rate during the three months ended December 31, 2006.

#### *Income Tax Expense*

Income tax expense for the three months ended December 31, 2006 was HK\$1.3 million, compared to HK\$1.2 million for the three months ended December 31, 2005. The increase was due to higher taxable income generated during the three months ended December 31, 2006.

#### *Net Income*

Net income for the three months ended December 31, 2006 was HK\$4.2 million, including the one-time realized gain from the sale of marketable securities of HK\$4.8 million, compared to net income of HK\$2.5 million during the three months ended December 31, 2005. The increase was mainly attributable to realized gain on sale of marketable securities of HK\$4.8 million, of which there was other-than-temporary impairment of HK\$2.1 million recognized in fiscal year ended March 31, 2003, but partly offset by the increase in SG&A expense.

#### **Liquidity and Capital Resources**

Our primary liquidity needs are funded by the collection of accounts receivable and sales of inventory. As of December 31, 2006, we had working capital of HK\$361.0 million, which included a cash balance of HK\$269.4 million. The current ratio was 10.2 to 1 as of December 31, 2006. Net cash provided by operating activities was approximately HK\$40.6 million for the nine months ended December 31, 2006. Net cash used in investing activities for the nine months ended December 31, 2006 was HK\$79.4 million and net cash provided by financing activities was nil.

Inventories were HK\$30.5 million as of December 31, 2006. The inventory turnover period was 1.8 months as of December 31, 2006.

Accounts receivable were HK\$72.3 million as of December 31, 2006. Debtors' turnover period was 65.9 days as of December 31, 2006.

We have had no outstanding debt since fiscal year 2005. Thus, the gearing ratio was zero as of December 31, 2006.

We had available working capital facilities of HK\$105 million with various banks at December 31, 2006. Such banking facilities include letter of credit arrangements, import loans, overdraft and other facilities commonly used in the jewelry business. All such banking facilities bear interest at floating rates generally offered by banks in Hong Kong and are subject to periodic review. As of December 31, 2006, we had a zero balance on each of these credit facilities.

We believe that our existing cash, cash equivalents, banking facilities and funds to be generated from internal operations will be sufficient to meet its anticipated future liquidity requirements.

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of December 31, 2006, we had no derivative contracts, such as forward contracts and options to hedge against foreign exchange fluctuations.

During the nine months ended December 31, 2006, we made approximately 46.7% of our purchases in U.S. dollars and 41.6% of our purchases in Hong Kong dollars and RMB combined.

We denominate our sales in either U.S. dollars or Hong Kong dollars. Since the Hong Kong Dollar remained "pegged" to the U.S. dollar at a consistent rate, we feel that the exposure of our sales proceeds to foreign exchange fluctuations is minimal. Furthermore, the potential revaluation of the RMB will not be considered significant to our operations as we believe that the risk of a substantial fluctuation of the RMB exchange rate remains low. At December 31, 2006, we have no short-term RMB bank borrowings.

Because most of our purchases are made in currencies that we believe we have a low risk of appreciation or devaluation and our sales are made in U.S. dollars, we have determined that our currency risk in the foreseeable future should not be material, and that no derivative contracts, such as forward contracts and options to hedge against foreign exchange fluctuations, were necessary during this quarter.

#### **ITEM 4. CONTROLS AND PROCEDURES**

We maintain a system of disclosure controls and procedures designed to provide reasonable assurance as to the reliability of our published financial statements and other disclosures included in our reports under the Securities and Exchange Act of 1934. In accordance with Rule 13a-15(b) of the Securities and Exchange Act of 1934, an evaluation was performed under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of December 31, 2006. Based on such evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2006 to ensure that material information relating to the company was made known to them by others within the company, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared. No significant change was made in our internal control over financial reporting during the fiscal quarter ended December 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Our Chief Executive Officer and Chief Financial Officer do not expect that our disclosure controls or internal controls will prevent all error and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdown can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based partly on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

## PART II OTHER INFORMATION

### ITEM 6. EXHIBITS

#### (A) Exhibits

- 3.1 Restated Articles of Incorporation including the Certificate of Designation of Series A Preferred Stock. (1)
- 3.2 Certificate of Designation of the Series B Preferred Stock. (2)
- 3.3 Amended and Restated Bylaws. (3)
- 3.4 Certificate of Amendment to Certificate of Designation of the Series A Preferred Stock. (4)
- 31.1 Rule 13a-14(a) Certification of Chief Executive Officer.
- 31.2 Rule 13a-14(a) Certification of Chief Financial Officer.
- 32.1 Section 1350 Certification of Chief Executive Officer.
- 32.2 Section 1350 Certification of Chief Financial Officer.

- (1) Incorporated by reference to the Company's current report on Form 8-K dated January 8, 1996.
- (2) Incorporated by reference to the Company's registration statement on Form 8-A dated June 17, 1996.
- (3) Incorporated by reference to the Company's quarterly report on Form 10-Q dated August 11, 2005.
- (4) Incorporated by reference to the Company's current report on Form 8-K dated November 23, 2005.

#### (B) Reports on Form 8-K

- (1) A report on Form 8-K was filed on December 28, 2006 to announce the sale of common stock of the Company by Cheng Tai Po to DKR SoundShore Oasis Holding Fund Ltd.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MAN SANG HOLDINGS, INC.

Date: February 13, 2007

By: /s/ CHENG Chung Hing, Ricky  
CHENG Chung Hing, Ricky  
Chairman of the Board, President,  
Chief Executive Officer

I, CHENG Chung Hing, Ricky, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Man Sang Holdings, Inc. (the "registrant") for the quarter ended December 31, 2006;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-

Date: February 13, 2007

/s/ CHENG Chung Hing, Ricky  
CHENG Chung Hing, Ricky  
Chairman of the Board, President,  
Chief Executive Officer

---

I, PAK Wai Keung, Martin, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Man Sang Holdings, Inc. (the "registrant") for the quarter ended December 31, 2006;
  2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
  4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
    - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
    - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
    - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
  5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
    - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
    - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.
-



Date: February 13, 2007

/s/ PAK Wai Keung, Martin  
PAK Wai Keung, Martin  
Chief Financial Officer

---

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Report of Man Sang Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Cheng Chung Hing, Ricky, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: February 13, 2007

/s/ CHENG Chung Hing, Ricky  
CHENG Chung Hing, Ricky  
Chief Executive Officer

---

**CERTIFICATION PURSUANT TO  
18 U.S.C. SECTION 1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Report of Man Sang Holdings, Inc. (the "Company") on Form 10-Q for the quarter ended December 31, 2006 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, PAK Wai Keung, Martin, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Dated: February 13, 2007

/s/ PAK Wai Keung, Martin  
PAK Wai Keung, Martin  
Chief Financial Officer

---