



MAN SANG INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

(Stock code: 938)

UNAUDITED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006

Website: <http://www.man-sang.com>

The Board of Directors of Man Sang International Limited (“the Company”) is pleased to announce the unaudited financial results of the Company and its subsidiaries (collectively referred to as the “Group”) for the six months ended September 30, 2006, together with the unaudited comparative figures for the corresponding period in the year 2005. The results have been reviewed by the Company’s auditors, Moores Rowland Mazars and by the Company’s audit committee.

CONDENSED CONSOLIDATED INCOME STATEMENT

		For the six months ended September 30,	
		2006	2005
	Notes	HK\$'000 (unaudited)	HK\$'000 (unaudited) (Restated)
Turnover	2	193,332	211,867
Cost of sales		<u>(133,675)</u>	<u>(153,260)</u>
Gross profit		59,657	58,607
Investment income		4,077	2,621
Net unrealized gain on financial assets at fair value through profit or loss		172	1,485
Other operating income		2,396	2,417
Selling expenses		(5,347)	(4,457)
Administrative expenses		<u>(33,744)</u>	<u>(31,741)</u>
Profit before taxation	3	27,211	28,932
Taxation	4	<u>(2,487)</u>	<u>(4,941)</u>
Net profit for the period		<u>24,724</u>	<u>23,991</u>
Earnings per share	5		
Basic		<u>2.47 cents</u>	<u>2.40 cents</u>
Diluted		<u>2.45 cents</u>	<u>N/A</u>

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Notes</i>	September 30, 2006 HK\$'000 (unaudited)	March 31, 2006 HK\$'000 (audited)
Non-current assets			
Investment properties		94,863	94,863
Property, plant and equipment		101,042	103,056
Prepaid land lease payments		31,648	32,030
Interest in an associate		86,459	1,692
Deferred tax assets		<u>5,504</u>	<u>5,100</u>
		<u>319,516</u>	<u>236,741</u>
Current assets			
Inventories		41,824	55,870
Trade and other receivables	6	92,149	58,453
Financial assets at fair value through profit or loss		15,732	15,560
Tax receivable		708	1,451
Bank balances and cash		<u>223,097</u>	<u>286,580</u>
		<u>373,510</u>	<u>417,914</u>
Current liabilities			
Trade and other payables	7	31,251	33,269
Taxation		<u>1,641</u>	<u>—</u>
		<u>32,892</u>	<u>33,269</u>
Net current assets		<u>340,618</u>	<u>384,645</u>
Total assets less current liabilities		<u>660,134</u>	<u>621,386</u>
Non-current liabilities			
Amount due to an immediate holding company		10,484	2,095
Deferred tax liabilities		<u>11,239</u>	<u>10,866</u>
		<u>21,723</u>	<u>12,961</u>
Net Assets		<u>638,411</u>	<u>608,425</u>
Capital and reserves			
Share capital		100,074	100,074
Reserves		<u>538,337</u>	<u>508,351</u>
		<u>638,411</u>	<u>608,425</u>

NOTES TO THE UNAUDITED CONSOLIDATED FINANCIAL RESULTS FOR THE SIX MONTHS ENDED SEPTEMBER 30, 2006

1. BASIS OF PREPARATION

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

Significant accounting policies

The Group has adopted a new policy of HKAS17 “Leases” for leasehold land and buildings held for own use for the year ended March 31, 2006 to account for the leasehold interest in the land held for own use as being held under operating lease where the fair value of the interest in any buildings situated on the leasehold land could be measured separately at the time the lease was first entered into by the Group. Relative comparative figures have been restated accordingly. Adoption of this policy does not have significant impact on these interim financial statements.

The accounting policies adopted in these interim financial statements are consistent with those adopted in the Group’s audited financial statements for year ended March 31, 2006, except for the following:

Share-based payment transactions

During the period, the Company granted share options to the directors and staff of the Group. 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 had 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.

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

The Group has adopted HKAS 39 and HKFRS 4 (amendment) “Financial Guarantee Contracts” effective for the accounting periods beginning on April 1, 2006.

A financial guarantee contract is a contract that requires the issuer to make specific payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified term of a debt instrument. The directors consider adoption of this amendment would have no significant impact on the Group’s financial statements.

Future changes in HKFRS

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

2. TURNOVER AND SEGMENT INFORMATION

Turnover represents the net amounts received and receivable in respect of goods sold, less returns and allowances, by the Group to outside customers during the period.

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

Pearls	—	Purchasing, processing, assembling, merchandising, wholesale distribution of pearls and jewelry products
Property investment	—	Leasing of properties

Segment information about these businesses is presented below:

Six months ended September 30, 2006 (unaudited)

	Pearls <i>HK\$'000</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Revenue			
External sales or rentals	<u>193,332</u>	<u>1,857</u>	<u>195,189</u>
Result			
Segment results	<u>28,980</u>	<u>(523)</u>	28,457
Unallocated other operating income			4,788
Unallocated corporate expenses			<u>(6,034)</u>
Profit before taxation			<u>27,211</u>

Six months ended September 30, 2005 (unaudited)

	Pearls <i>HK\$'000</i> <i>(Restated)</i>	Property investment <i>HK\$'000</i>	Consolidated <i>HK\$'000</i> <i>(Restated)</i>
Revenue			
External sales or rentals	<u>211,867</u>	<u>1,843</u>	<u>213,710</u>
Result			
Segment results	<u>27,073</u>	<u>(1,345)</u>	25,728
Unallocated other operating income			4,679
Unallocated corporate expenses			<u>(1,475)</u>
Profit before taxation			<u>28,932</u>

3. PROFIT BEFORE TAXATION

**For the six months ended
September 30,**
2006 2005
HK\$'000 *HK\$'000*
(unaudited) *(unaudited)*
(Restated)

Profit before taxation has been arrived at after charging:

Depreciation and amortization	3,654	3,615
Staff costs, including directors emoluments	<u>20,345</u>	<u>15,873</u>

4. TAXATION

**For the six months ended
September 30,**
2006 2005
HK\$'000 **HK\$'000**
(unaudited) **(unaudited)**
(Restated)

Current tax:

— Hong Kong

2,518 6,678

Deferred tax:

— Current period

(31) **(1,737)**

2,487 **4,941**

Hong Kong Profits Tax is calculated at 17.5% of the estimated assessable profit for the six months ended September 30, 2006 and September 30, 2005.

5. EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the net profit for the period of HK\$24,724,000 (*six months ended September 30, 2005: HK\$23,991,000*) and on 1,000,740,000 (*six months ended September 30, 2005: 1,000,740,000*) shares in issue during the period.

Diluted earnings per share for six months ended September 30, 2006 is calculated based on the profit for the period of HK\$24,724,000 and on the adjusted weighted average number of 1,009,983,000 shares which is the weighted average number of shares in issue during the period plus the weighted average number of 9,243,000 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 period ended September 30, 2005 as there are no dilutive potential ordinary shares in issue.

6. TRADE AND OTHER RECEIVABLES

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

Included in trade and other receivables of the Group are trade receivables of HK\$81,070,000 (*March 31, 2006: HK\$47,330,000*) and their aged analysis after credit period is as follows:

	September 30, 2006	March 31, 2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0–60 days	76,637	43,479
61–120 days	<u>4,433</u>	<u>3,851</u>
	<u>81,070</u>	<u>47,330</u>

7. TRADE AND OTHER PAYABLES

Included in trade and other payables of the Group are trade payables of HK\$13,631,000 (*March 31, 2006: HK\$11,477,000*) and their aged analysis after credit period is as follows:

	September 30, 2006	March 31, 2006
	HK\$'000	HK\$'000
	(unaudited)	(audited)
0–60 days	13,626	9,461
61–120 days	5	1,268
>120 days	<u>—</u>	<u>748</u>
	<u>13,631</u>	<u>11,477</u>

DIVIDEND

The Board of Directors does not recommend the payment of interim dividend for the six months ended September 30, 2006 (*six months ended September 30, 2005: Nil*).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

For the six months ended September 30, 2006, the Group recorded a turnover of approximately HK\$193.3 million, representing a decrease of 8.7% as compared with the same period last year. Profit attributable to shareholders was approximately HK\$24.7 million, 3.1% higher than last year's HK\$24.0 million. The increase was mainly attributable to the improved gross profit margin for the period.

The decrease in the Group's turnover was mainly due to the decrease in sales of South Sea pearls. High oil price together with fluctuating gold price affected market demand and customers were conservative in placing orders. The decrease was compensated by an increase in sales of assembled finished pearl and jewelry products. Despite a decline in turnover of the Group in the first half year of fiscal year 2007, we received good responses from buyers who attended the Hong Kong Jewellery and Watch Fair in September 2006.

Of the total turnover in the first six months, sales of assembled pearl and jewelry finished products accounted for 49.4% while that of South Sea pearls came second at 41.1%. Sales to European customers grew in the first six months while sales to US customers dropped when compared with the same period last year.

Gross Profit

Gross profit margin had slightly increased from 27.7% to 30.9% when compared with the same period last year. It was mainly due to the improvement in the production efficiency in the wake of the enhanced management and cost control measures.

Operating Costs and Expenses

Selling and administration expenses increased by 8.0% as compared with the same period last year. An one-off share-based payment of HK\$4.5 million associated with the grant of share options by the Company was charged for the period.

Post Balance Sheet Events

From September 30, 2006 to the date of this announcement, no event which has a significant impact on the Company and its subsidiaries has taken place.

Prospects

Heeding existing market situations, the Group will continue to exercise prudent cost control and, at the same time, seek to expand its market share and customer base. We will strive achieve our performance targets by ensuring that our products are innovatively designed and of the highest quality.

In March 2006, the Group invested in the China Pearls and Jewellery City project in Zhuji, Zhejiang province in the PRC. The investment amount has been fully paid and the project has obtained the land use rights certificate for the development of Phase I of the project. The construction work has been carried out after receiving the approval for commencement of construction work in September 2006. We expect that Phase I of the project to be completed by the end of year 2007.

With the management and staff dedicated to helping the Group achieve its goals, we are confident of the performance of our business in the years to come.

LIQUIDITY AND FINANCIAL RESOURCES

Liquidity

At September 30, 2006, the Group had a working capital of HK\$340.6 million, which included a cash balance of HK\$223.1 million, compared to the working capital of HK\$384.6 million, which included a cash balance of HK\$286.6 million at March 31, 2006. The decrease in working capital was mainly due to an increase in advance to an associate of HK\$84.8 million but being offset by the increase in trade and other receivables by HK\$33.7 million.

The Group had available working capital facilities of HK\$105.0 million in total with various banks at September 30, 2006. Such banking facilities include letter of credit arrangements, import loans, overdraft and other facilities commonly used in jewelry business. All such banking facilities bear interest at floating rates generally offered by banks in Hong Kong and are subject to periodic review. At September 30, 2006, the Group had a zero balance on each of these credit facilities.

Capital Structure

At September 30, 2006, the Group's total shareholders' funds amounted to HK\$638.4 million, compared with HK\$608.4 million at March 31, 2006. The Group's gearing ratio was zero with no outstanding debts at September 30, 2006 and March 31, 2006. The gearing ratio is computed by dividing total debts over capital and reserves.

For the period ended September 30, 2006, most of the Group's transactions were denominated in either US dollars or Hong Kong dollars. Since the Hong Kong dollar remained "pegged" to the US dollar at a consistent rate, in this respect, the Group was not exposed to any significant foreign exchange risk, and as a result of which, the Group has not adopted any hedging measures.

PURCHASE, REDEMPTION OR SALE OF THE COMPANY'S LISTED SECURITIES

During the six months ended September 30, 2006, neither the Company nor any of its holding companies or subsidiaries purchased, sold or redeemed any listed securities of the Company.

CORPORATE GOVERNANCE

The Company has complied with the code provisions of the Code of 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 (the "Listing Rules") throughout the six months ended September 30, 2006, except for the following deviation from code provision A.2.1.

Under code provision A.2.1, the roles of the chairman and chief executive officer are required to be separated and not to be performed by the same individual.

Mr. Cheng Chung Hing ("Mr. Cheng") assumes the role of both the chairman and the chief executive officer of the Group. The roles of chairman and chief executive officer of the Group rest on the same individual which deviates from code provision A.2.1. The reason for such deviation is set out below.

Mr. Cheng is one of the founders and a substantial shareholder of the Group and has considerable industry experience. The Board is of the view that it is in the best interests of the Group to have an executive chairman who is most knowledgeable about the business of the Group and is most 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 Board considers 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.

In light of the above, the Board does not currently propose to appoint two separate individuals to take up the respective roles of chairman and chief executive officer of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) as set out in Appendix 10 of the Listing Rules. Following enquiry by the Company, all directors confirmed that they had complied with the required standard as set out in the Model Code throughout the six months ended September 30, 2006.

AUDIT COMMITTEE

The audit committee has reviewed together with the management the accounting principles and practices adopted by the Group and discussed the internal control and financial reporting matters. The interim results for the six months ended September 30, 2006 are unaudited, but have been reviewed by Moores Rowland Mazars in accordance with Statement of Auditing Standards 700 “Engagement to review interim financial reports”. The interim financial report has been reviewed by the audit committee.

PUBLICATION OF FURTHER INFORMATION

This announcement will be published on the respective websites of the Company and the Stock Exchange. The Group’s unaudited interim results have been reviewed by the Company’s Auditors, and a report of their review will be included in the Interim Report to the shareholders of the Company.

The Interim Report for the six months ended September 30, 2006 containing all the applicable information required by the Listing Rules will be dispatched to the shareholders of the Company and published on the respective websites of the Company and the Stock Exchange in due course.

On behalf of the Board
CHENG CHUNG HING
Chairman

Hong Kong, November 14, 2006

As at the date hereof, the Board comprises Mr. Cheng Chung Hing, Mr. Cheng Tai Po, Miss Yan Sau Man, Amy as executive directors; Mr. Lee Kang Bor, Thomas, Mr. Kiu Wai Ming, Kenneth and Mr. Lau Chi Wah, Alex as independent non-executive directors.

*Please also refer to the published version of this announcement in **The Standard**.*